



**EMFULENI LOCAL MUNICIPALITY  
ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## General Information

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### Mayoral committee

Executive Mayor N.G Hlongwane

Speaker M.P Gqelosha

Chief whip D.E Tshabalala

### Members of mayoral committee

MMC - Infrastructure planning, development and asset management (IPAM) V.M Godoli

MMC - Human settlement K.L Khubeka

MMC - Public safety W.V Mcera

MMC - Corporate and governance K. Ntombela

MMC - Health and social development S.E Pitso

MMC - Sports, recreation, arts and culture, library information services, parks and cemeteries S.J Radebe

MMC - Environmental management and planning K.J.M Ranake

MMC - Finance and revenue M.T Ronyuza

MMC - Basic services N.R Thulo

MMC - Agriculture, local economic development, development planning and tourism K. Malindi

Accounting Officer SS Shabalala

Chief Finance Officer (CFO) PR Matlala

Auditors Auditor-General of South Africa

Primary banking institution ABSA Bank Limited

Registered office Cnr Frikkie Meyer Boulevard & Klasie Havenga Street  
Vanderbijlpark  
1900

Business address Cnr Frikkie Meyer Boulevard & Klasie Havenga Street  
Vanderbijlpark  
1900

Postal address P.O Box 3  
Vanderbijlpark  
1900

Telephone number (016) 950 5000

Fax number (016) 950 5050

Email shabalalas@emfuleni.gov.za

Website www.emfuleni.gov.za

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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### Abbreviations

ELM	Emfuleni Local Municipality
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
RUL	Remaining Useful Life
EUL	Estimated Useful Life
AUC	Asset under construction
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
AFS	Annual Financial Statements
PAYE	Pay As You Earn
UIF	Unemployment Insurance Fund

# Emfuleni Local Municipality

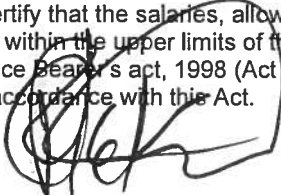
Annual Financial Statements for the year ended 30 June 2015

## Accounting Officer's responsibilities and approval

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I am responsible for the preparation of these financial statements which are set out on pages 5 to 79, in terms of the Local Government: Municipal Finance Management Act, 2003 (Act no. 56 of 2003) and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of councillors as disclosed in Note 24 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers act, 1998 (Act no. 20 of 1998) and the Minister of Cooperative Governance and Traditional Affairs determination in accordance with this Act.



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SS Shabalala

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Financial Position as at 30 June 2015

		2015	2014 Restated*
	Note(s)		
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	2	123,981,683	123,794,515
Trade and other receivables from exchange transactions	3	182,152,808	248,735,518
Trade and other receivables from non-exchange transactions	4	198,078,011	204,616,195
Inventories	5	29,246,303	27,364,703
VAT receivable	6	81,313,057	19,525,563
		<b>614,771,862</b>	<b>624,036,494</b>
<b>Non-current assets</b>			
Property, plant and equipment	7	10,116,258,096	10,200,716,863
Investment property	8	1,374,629,394	1,404,705,167
Intangible assets	9	19,555,060	19,950,166
Heritage assets	10	90,316	90,316
Sanlam shares		17,912	16,673
		<b>11,510,550,778</b>	<b>11,625,479,185</b>
<b>Total Assets</b>		<b>12,125,322,640</b>	<b>12,249,515,679</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	11	1,026,639,323	731,095,922
Unspent conditional grants and receipts	13	30,526,258	28,596,472
Borrowings	14	3,933,883	3,657,602
Finance lease	15	538,770	750,111
Provision	16	27,584,103	-
		<b>1,089,222,337</b>	<b>764,100,107</b>
<b>Non-current liabilities</b>			
Consumer deposits	12	42,380,899	37,404,062
Borrowings	14	15,893,904	19,827,787
Provision	16	176,047,579	86,475,690
Employee benefit obligation	38	205,905,970	203,336,970
Finance lease	15	-	538,770
		<b>440,228,352</b>	<b>347,583,279</b>
<b>Total liabilities</b>		<b>1,529,450,689</b>	<b>1,111,683,386</b>
<b>Net assets</b>		<b>10,595,871,951</b>	<b>11,137,832,293</b>
<b>Reserves</b>			
Self insurance reserve	46	25,578,843	8,374,692
Accumulated surplus		10,570,293,108	11,129,457,601
<b>Total net assets</b>		<b>10,595,871,951</b>	<b>11,137,832,293</b>

\* See Note 30

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Financial Performance

		2015	2014 Restated*
	Note(s)		
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	17	3,312,078,299	2,987,009,709
Rental of facilities and equipment	18	6,516,662	11,633,519
Interest income	19	40,590,221	39,410,982
Dividends received	19	3,025	6,050
Trade and other licenses		11,079	6,770
Other income	20	90,684,345	47,525,238
Actuarial gain		7,599,228	10,414,552
<b>Total revenue from exchange transactions</b>		<b>3,457,482,859</b>	<b>3,096,006,820</b>
<b>Revenue from non-exchange transactions</b>			
Property rates	21	543,235,860	469,446,918
Interest received		2,693,548	298,246
Donations		28,470,957	84,271,926
Fines	23	143,684,514	153,353,108
Reversal of impairment		-	29,281
<b>Transfer revenue</b>			
Government grants & subsidies	22	857,237,384	836,352,364
<b>Total revenue from non-exchange transactions</b>		<b>1,575,322,263</b>	<b>1,543,751,843</b>
<b>Total revenue</b>		<b>5,032,805,122</b>	<b>4,639,758,663</b>
<b>Expenditure</b>			
Employee related costs	24	(856,534,597)	(824,136,051)
Remuneration of councillors	25	(45,330,967)	(42,735,848)
Depreciation and impairment		(463,850,663)	(477,059,423)
Finance costs	26	(47,247,701)	(27,818,590)
Debt Impairment		(979,290,586)	(781,535,833)
Repairs and maintenance		(86,910,780)	(137,956,627)
Bulk purchases	27	(1,978,206,862)	(1,874,697,369)
Contracted services		(235,160,509)	(105,127,032)
Imputed interest		6,696,068	3,576,232
(Loss)/gain on sale of assets		(11,575,486)	(88,308,316)
General expenses	28	(848,762,888)	(730,872,153)
<b>Total expenditure</b>		<b>(5,546,174,971)</b>	<b>(5,086,671,010)</b>
<b>Operating deficit</b>		<b>(513,369,849)</b>	<b>(446,912,347)</b>
Fair value adjustments		(28,590,497)	268,959,581
<b>(Deficit)/surplus for the year</b>		<b>(541,960,346)</b>	<b>(177,952,766)</b>

\* See Note 30

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of changes in net assets

	Insurance reserve	Accumulated surplus	Total net assets
<b>Balance at 01 July 2013</b>	<b>56,362,401</b>	<b>11,259,422,659</b>	<b>11,315,785,060</b>
Changes in net assets			
Surplus for the year	-	(177,952,767)	(177,952,767)
Transfers/Contributions	(47,987,709)	47,987,709	-
Total changes	(47,987,709)	(129,965,058)	(177,952,767)
<b>Restated* Balance at 01 July 2014</b>	<b>8,374,692</b>	<b>11,129,457,602</b>	<b>11,137,832,294</b>
Changes in net assets			
Deficit for the year	-	(541,960,343)	(541,960,343)
Withdrawal	17,204,151	(17,204,151)	-
Total changes	17,204,151	(559,164,494)	(541,960,343)
<b>Balance at 30 June 2015</b>	<b>25,578,843</b>	<b>10,570,293,108</b>	<b>10,595,871,951</b>

\* See Note 30

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Cash flow statement

		2015	2014 Restated*
	Note(s)		
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		2,738,557,968	2,298,913,224
Grants		859,167,170	833,719,692
Interest income		43,283,769	39,410,982
Dividends received		3,025	6,050
Other receipts		385,877,679	369,946,913
		<u>4,026,889,611</u>	<u>3,541,996,861</u>
<b>Payments</b>			
Employee costs		(905,932,495)	(869,906,949)
Suppliers		(2,071,730,679)	(2,050,623,842)
Finance costs		(41,399,701)	(24,635,647)
Other payments		(720,731,120)	(418,912,906)
		<u>(3,739,793,995)</u>	<u>(3,364,079,344)</u>
<b>Net cash flows from operating activities</b>	29	<u><b>287,095,616</b></u>	<u><b>177,917,517</b></u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	7	(285,963,196)	(181,424,575)
Proceeds from sale of property, plant and equipment	7	581,893	1,869,617
Proceeds from sale of investment property	8	-	649,412
Purchase of intangible assets	9	(2,031,326)	(822,943)
<b>Net cash flows from investing activities</b>		<u><b>(287,412,629)</b></u>	<u><b>(179,728,489)</b></u>
<b>Cash flows from financing activities</b>			
Repayment of borrowings		(3,933,886)	(3,435,772)
Movement in consumer deposits		4,976,837	3,465,352
Finance lease payments		(538,770)	(2,073,441)
<b>Net cash flows from financing activities</b>		<u><b>504,181</b></u>	<u><b>(2,043,861)</b></u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>187,168</b>	<b>(3,854,833)</b>
Cash and cash equivalents at the beginning of the year		123,794,515	127,649,348
<b>Cash and cash equivalents at the end of the year</b>	2	<u><b>123,981,683</b></u>	<u><b>123,794,515</b></u>

\* See Note 30



# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	3,354,597,398	-	3,354,597,398	3,312,078,299	(42,519,099)	
Rental of facilities and equipment	14,771,890	-	14,771,890	6,516,662	(8,255,228)	
Trade and other licenses	12,887	-	12,887	11,079	(1,808)	
Actuarial gain	-	-	-	7,599,228	7,599,228	
Other income	60,594,799	100,000,000	160,594,799	90,684,345	(69,910,454)	Note 40
Interest received - investment	33,947,560	-	33,947,560	40,590,221	6,642,661	Note 40
Dividends received	5,000	-	5,000	3,025	(1,975)	
<b>Total revenue from exchange transactions</b>	<b>3,463,929,534</b>	<b>100,000,000</b>	<b>3,563,929,534</b>	<b>3,457,482,859</b>	<b>(106,446,675)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	539,000,000	-	539,000,000	543,235,860	4,235,860	
Interest received	-	-	-	2,693,548	2,693,548	
Donations	44,306	-	44,306	28,470,957	28,426,651	
Fines	35,008,300	-	35,008,300	143,684,514	108,676,214	Note 40
<b>Transfer revenue</b>						
Government grants & subsidies	935,150,486	109,281,750	1,044,432,236	857,237,384	(187,194,852)	Note 40
<b>Total revenue from non-exchange transactions</b>	<b>1,509,203,092</b>	<b>109,281,750</b>	<b>1,618,484,842</b>	<b>1,575,322,263</b>	<b>(43,162,579)</b>	
<b>Total revenue</b>	<b>4,973,132,626</b>	<b>209,281,750</b>	<b>5,182,414,376</b>	<b>5,032,805,122</b>	<b>(149,609,254)</b>	
<b>Expenditure</b>						
Personnel	(935,425,627)	-	(935,425,627)	(856,534,597)	78,891,030	
Remuneration of councillors	(47,185,054)	-	(47,185,054)	(45,330,967)	1,854,087	
Depreciation and amortisation	(173,523,164)	-	(173,523,164)	(463,850,663)	(290,327,499)	Note 40
Finance costs	(11,896,707)	-	(11,896,707)	(47,247,701)	(35,350,994)	Note 40
Bad debts written off	(438,178,617)	(71,931,704)	(510,110,321)	(979,290,586)	(469,180,265)	Note 40
(Loss)/gain on disposal of assets	1,413,853	-	1,413,853	(11,575,486)	(12,989,339)	
Repairs and maintenance	(206,923,534)	36,601,037	(170,322,497)	(86,910,780)	83,411,717	
Bulk purchases	(1,950,242,691)	-	(1,950,242,691)	(1,978,206,862)	(27,964,171)	
Contracted Services	(130,919,273)	(81,578,494)	(212,497,767)	(235,160,509)	(22,662,742)	Note 40
Imputed interest	(171,758)	34,351	(137,407)	6,696,068	6,833,475	
General Expenses	(671,654,707)	(91,343,418)	(762,998,125)	(848,762,886)	(85,764,761)	Note 40
<b>Total expenditure</b>	<b>(4,564,707,279)</b>	<b>(208,218,228)</b>	<b>(4,772,925,507)</b>	<b>(5,546,174,969)</b>	<b>(773,249,462)</b>	
<b>Operating deficit</b>	<b>408,425,347</b>	<b>1,063,522</b>	<b>409,488,869</b>	<b>(513,369,847)</b>	<b>(922,858,716)</b>	
Fair value adjustments	-	-	-	(28,590,497)	(28,590,497)	
Inventories losses/write-downs	(408,425,347)	(1,063,522)	(409,488,869)	-	409,488,869	
	<b>(408,425,347)</b>	<b>(1,063,522)</b>	<b>(409,488,869)</b>	<b>(28,590,497)</b>	<b>380,898,372</b>	
<b>Deficit before taxation</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(541,960,344)</b>	<b>(541,960,344)</b>	

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

### Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual amount on comparable basis as presented in the budget and actual comparative statement	-	-	-	(541,960,344)	(541,960,344)	

### Statement of financial position

#### Assets

##### Current assets

Inventories	30,000,000	(28,978,000)	1,022,000	29,246,303	28,224,303
Trade and other receivables from non-exchange transactions	182,000,000	490,567,000	672,567,000	198,078,011	(474,488,989)
VAT receivable	-	-	-	81,313,057	81,313,057
Trade and other receivables from exchange transactions	427,550,000	(124,504,000)	303,046,000	182,152,807	(120,893,193)
Cash and cash equivalents	150,000,000	(141,000,000)	9,000,000	123,981,683	114,981,683
	<b>789,550,000</b>	<b>196,085,000</b>	<b>985,635,000</b>	<b>614,771,861</b>	<b>(370,863,139)</b>

##### Non-current assets

Investment property	1,167,730,000	205,213,000	1,372,943,000	1,374,629,394	1,686,394
Property, plant and equipment	8,965,032,000	1,096,623,000	10,061,655,000	10,116,258,096	54,603,096
Intangible assets	20,785,000	(835,000)	19,950,000	19,555,059	(394,941)
Heritage assets	347,000	3,403,000	3,750,000	90,316	(3,659,684)
Sanlam shares	-	-	-	17,912	17,912
	<b>10,153,894,000</b>	<b>1,304,404,000</b>	<b>11,458,298,000</b>	<b>11,510,550,777</b>	<b>52,252,777</b>

**Total Assets** **10,943,444,000** **1,500,489,000** **12,443,933,000** **12,125,322,638** **(318,610,362)**

#### Liabilities

##### Current liabilities

Borrowings	4,048,000	(2,183,000)	1,865,000	3,933,883	2,068,883
Finance lease	-	-	-	538,770	538,770
Trade and other payables from exchange transactions	300,000,000	691,440,000	991,440,000	1,026,639,320	35,199,320
Employee benefit obligation	121,037,000	-	121,037,000	-	(121,037,000)
Unspent conditional grants and receipts	-	-	-	30,526,258	30,526,258
Provision	-	-	-	27,584,103	27,584,103
	<b>425,085,000</b>	<b>689,257,000</b>	<b>1,114,342,000</b>	<b>1,089,222,334</b>	<b>(25,119,666)</b>

##### Non-current liabilities

Borrowings	26,921,000	(7,093,000)	19,828,000	15,893,904	(3,934,096)
Employee benefit obligation	323,254,000	(33,441,000)	289,813,000	205,905,970	(83,907,030)
Provision	-	-	-	176,047,579	176,047,579
Consumer deposits	39,125,000	2,849,000	41,974,000	42,380,899	406,899
	<b>389,300,000</b>	<b>(37,685,000)</b>	<b>351,615,000</b>	<b>440,228,352</b>	<b>88,613,352</b>
<b>Total liabilities</b>	<b>814,385,000</b>	<b>651,572,000</b>	<b>1,465,957,000</b>	<b>1,529,450,686</b>	<b>63,493,686</b>
<b>Net assets</b>	<b>10,129,059,000</b>	<b>848,917,000</b>	<b>10,977,976,000</b>	<b>10,595,871,952</b>	<b>(382,104,048)</b>

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Referen
<b>Net assets</b>						
<b>Reserves</b>						
Insurance reserve	56,289,000	28,962,000	85,251,000	25,578,843	(59,672,157)	
Accumulated surplus	10,072,770,000	819,955,000	10,892,725,000	10,570,293,109	(322,431,891)	
<b>Total Net Assets</b>	<b>10,129,059,000</b>	<b>848,917,000</b>	<b>10,977,976,000</b>	<b>10,595,871,952</b>	<b>(382,104,048)</b>	

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Referen
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Sale of goods and services	3,551,624,000	(292,764,000)	3,258,860,000	2,667,772,142	(591,087,858)	
Grants	886,651,000	105,219,000	991,870,000	854,307,306	(137,562,694)	
Interest income	33,948,000	-	33,948,000	40,590,221	6,642,221	
Dividends received	5,000	-	5,000	3,025	(1,975)	
Other receipts	75,058,000	59,431,000	134,489,000	475,071,572	340,582,572	
	<b>4,547,286,000</b>	<b>(128,114,000)</b>	<b>4,419,172,000</b>	<b>4,037,744,266</b>	<b>(381,427,734)</b>	
<b>Payments</b>						
Employee costs and suppliers	(3,870,732,000)	(118,640,000)	(3,989,372,000)	(2,903,095,566)	1,086,276,434	
Finance costs	(11,897,000)	-	(11,897,000)	(47,242,179)	(35,345,179)	
Other payments	-	-	-	(800,326,252)	(800,326,252)	
	<b>(3,882,629,000)</b>	<b>(118,640,000)</b>	<b>(4,001,269,000)</b>	<b>(3,750,663,997)</b>	<b>250,605,003</b>	
<b>Net cash flows from operating activities</b>	<b>664,657,000</b>	<b>(246,754,000)</b>	<b>417,903,000</b>	<b>287,080,269</b>	<b>(130,822,731)</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(408,425,000)	(109,695,000)	(518,120,000)	(285,963,491)	232,156,509	
Proceeds from sale of property, plant and equipment	1,414,000	-	1,414,000	581,893	(832,107)	
Purchase of other intangible assets	-	-	-	(2,031,326)	(2,031,326)	
<b>Net cash flows from investing activities</b>	<b>(407,011,000)</b>	<b>(109,695,000)</b>	<b>(516,706,000)</b>	<b>(287,412,924)</b>	<b>229,293,076</b>	
<b>Cash flows from financing activities</b>						
Repayment of borrowings	-	(150,000,000)	(150,000,000)	(3,933,886)	146,066,114	
Movement in consumer deposits	-	-	-	4,976,837	4,976,837	
Finance lease payments	-	-	-	(523,110)	(523,110)	
<b>Net cash flows from financing activities</b>	<b>-</b>	<b>(150,000,000)</b>	<b>(150,000,000)</b>	<b>519,841</b>	<b>150,519,841</b>	
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>257,646,000</b>	<b>(506,449,000)</b>	<b>(248,803,000)</b>	<b>187,186</b>	<b>248,990,186</b>	
<b>Cash and cash equivalents at the beginning of the year</b>	<b>127,704,000</b>	<b>-</b>	<b>127,704,000</b>	<b>123,794,515</b>	<b>(3,909,485)</b>	
<b>Cash and cash equivalents at the end of the year</b>	<b>385,350,000</b>	<b>(506,449,000)</b>	<b>(121,099,000)</b>	<b>123,981,701</b>	<b>245,080,701</b>	



# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting policies

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### 1. Presentation of annual financial statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated otherwise. The details of any changes in the accounting policies are explained in the relevant policy.

#### 1.1 Significant judgements and sources of estimation

The preparation of annual financial statements in conformity with standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates. Significant judgements and underlying assumptions are reviewed on a constant basis. Significant judgements include:

The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt.

#### Trade receivables and other receivables

The municipality assesses its trade receivables, and other receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the management makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and other receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio.

#### Fair value estimation for investment property

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

#### Impairment testing

The recoverable amount of cash generating units and recoverable amount/ recoverable service amount of individual assets have been determined based on the higher of value in use calculations and fair values less cost to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the fair value assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events and changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest value for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting policies

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### 1.1 Significant judgements and sources of estimation (continued)

#### Provisions

Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Assumptions were used in determining the provision for rehabilitation of landfill sites. Landfill areas are rehabilitated over years and assumptions were made that the areas may stay the same in size for a number of years. The increase in the restoration provision due to passage of time is recognised as borrowing cost in the statement of financial performance.

The estimates are discounted at a discount rate that reflects current market assessments of the time value of money.

#### Contingent liabilities

Contingencies disclosed in the current year required estimates and judgements. Additional disclosure of these contingent liabilities is included in the relevant note.

#### Useful lives of assets

The municipality's management determines the estimated useful lives and related depreciation charges for assets.. These norms are based on South African Institution of Civil Engineering norms. Management will decrease the depreciation charge where useful lives are more than previously estimated useful lives.

#### Post-retirement benefits

The present value of the post-retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement obligations.

The discount rate was set as the nominal and zero curves as at 30 June 2015 supplied by the JSE and the CPI assumptions at each relevant time period.

Other key assumptions for pension obligations are based on current market conditions.

#### Effective interest rate

The municipality used the prime interest rate plus 2% to discount future cash flows as at 30 June. This rate is similar to the interest rate levied on arrear consumer accounts.

#### Impairment receivables

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments due and an assessment of their ability to make payments based on their credit worthiness. This was performed per service identifiable categories across all classes of debtors.

#### Property plant and equipment

##### Self- insurance reserve

A self-insurance reserve has been established which covers claims that may occur. Premiums are charged to the respective services, taking into account claims history and replacement value of the insured assets.

The useful life of property plant and equipment are based on managements estimation. infrastructure assets useful life are based on technical knowledge of the infrastructure types and service requirements. For other assets and buildings, management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation where appropriate.

### 1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting policies

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### 1.2 Investment property (continued)

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality and the cost or fair value of the investment property can be measured reliably.

#### Initial measurement

Investment property is initially recognised at cost.

#### Subsequent measurement

Subsequently investment property is recognised at fair value and the fair value of investment property reflects market conditions at the reporting date.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition. A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

Compensation from third parties for investment property that was impaired, lost or given up, is recognised in surplus or deficit when the compensation becomes receivable.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

### Derecognition

Investment property is derecognised when it is disposed or when there are no further economic benefits expected from the use of the investment property. A gain or loss arising from the disposal or retirement of an item of investment property is determined as a difference between the proceeds and the carrying value and is recognised in the statement of financial performance

### 1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

#### Initial measurement

Property, plant and equipment is initially measured at cost.

#### Assets acquired by grant or donation and newly identified assets

Property, plant and equipment are measured at fair value at date of acquisition where assets have been acquired by grant or donation and for assets that were newly identified through formal asset verification procedures for which cost records are not available or not reliable at date of acquisition.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.



# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting policies

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### 1.3 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

#### Subsequent measurement

After the initial recognition as assets, property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Enhancements to property, plant and equipment do not qualify as assets, unless these extend the useful life of the enhanced property plant and equipment. Day to day servicing costs of an asset are not recognised in the carrying amount of an item of property plant and equipment.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Depreciation is calculated on the depreciable amount (cost less residual value), using the straight line method over the estimated useful lives of the assets. The annual depreciation rates are based on the following estimated asset lives:

Item	Average useful life
Infrastructure	
• Roads and paving	20
• Electricity	50-60
• Water	15-20
• Sewerage	15-20
• Housing	30
Community assets	
• Buildings	30
• Recreational facilities	20-30
• Security	5
Other assets	
• Buildings	30
• Specialist vehicles	10
• Other vehicles	5
• Office equipment	3-7
• Furniture and fittings	7-10
• Watercraft	15
• Bins and containers	5
• Specialised plant and equipment	10-15
• Other items of plant and equipment	2-5
• Landfill sites	30-55
• Computer software	3-5
• Art, paintings, sculptures and ornaments	10

An asset only has a residual value when the useful life of the asset (the period the asset is used or available for use) is shorter than the economic life of the asset (the period the asset is used or available for use by all users or owners of the asset). As the municipality plans to use the assets for the entire economic lives, the residual value is considered to be negligible or even zero.

Land is not depreciated as it is deemed to have an indefinite life.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting policies

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### 1.3 Property, plant and equipment (continued)

The residual value and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount it is written down immediately to its recoverable amount and an impairment loss is charged to surplus or deficit.

#### De-recognition

Items of property, plant and equipment are de-recognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the de-recognition of an item of property, plant and equipment is included in surplus or deficit when the item is de-recognised. The gain or loss arising from the de-recognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.4 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

#### Initial measurement

Intangible assets are initially recognised at cost

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

If an intangible asset was acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

#### Subsequent measurement

After the initial recognition intangible assets with finite useful lives are carried at cost less accumulated amortisation..

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting policies

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### 1.4 Intangible assets (continued)

Computer software is capitalised to computer equipment where it forms an integral part of computer equipment.

#### Internally generated intangible assets

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all the following are demonstrated.

- (a) The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- (b) Its intention to complete the intangible asset and use or sell it.
- (c) Its ability to use or sell the intangible assets
- (d) How the intangible asset will generate probable future economic benefits or service potential. Among other things, the municipality can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally also, the usefulness of the intangible asset.
- (e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- (f) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

#### Websites

##### Initial recognition

Websites are internally generated intangible assets and are initially recognised at the value of the improvement/development cost in terms of IGRAP 16.

The cost of an internally generated intangible asset (website) is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria. After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment loss.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

##### Subsequent measurement

After initial measurement websites will be carried at cost less any accumulated amortisation and impairment losses.

Computer software is capitalised to computer equipment where it forms an integral part of computer equipment.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

For intangible assets with a finite useful life, the residual value is always deemed to be zero unless:

- (a) A third party has committed to purchase the asset at the end of the useful life

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting policies

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### 1.4 Intangible assets (continued)

(b) There is an active market for the asset and;

(i) The residual value can be determined by reference to that market; and

(ii) it is probable that such a market will exist at the end of the asset's useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets. Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, internally generated	3-5 years
Computer software, other	3-5 years
Intangible assets under development	3-5 years

Intangible assets are de-recognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

### 1.5 Heritage assets

Heritage assets are defined as any asset that has a cultural, environmental, historical, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

A heritage asset is recognised as an asset if it is probable that economic benefits or service potential associated with the asset will flow to the Municipality, and the cost or fair value of the asset can be measured reliably.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in a municipality's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset. Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

### Recognition and measurement

#### Initial recognition

A heritage asset that qualifies for recognition as an asset, is measured at its cost. Where a heritage asset is acquired through a non-exchange transaction, its cost is deemed to be its fair value as at the date of acquisition.

The fair value of a heritage asset can be determined from market-based evidence determined by appraisal. An appraisal of the value of the asset is normally undertaken by a member of the valuation profession, who holds a recognised and relevant professional qualification.

#### Subsequent measurement

After recognition as an asset, heritage assets are carried at its cost less any accumulated impairment losses.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting policies

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### 1.5 Heritage assets (continued)

#### Depreciation and Impairment

Heritage assets are not depreciated.

Heritage assets are reviewed at each reporting date for any indication of impairment.

An impairment is reversed only to the extent that the asset's carrying amount that would have been determined had no impairment been recognised.

#### Derecognition

Heritage assets are derecognised when it is disposed or when there are no further economic benefits expected from the use of the heritage asset. The gain or loss arising on the disposal or retirement of a heritage asset is determined as the difference between the sales proceeds and the carrying value of the heritage asset and is recognised in the Statement of Financial Performance.

### 1.6 Financial instruments

#### Classification

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, the municipality considers the substance of the contract and not just the legal form.

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

<u>Class</u>	<u>Category</u>
Cash and cash equivalents	Financial asset at amortised cost
Trade and other receivables from exchange transactions	Financial asset at amortised cost
Consumer debtors	Financial asset at amortised cost
Long term receivables	Financial asset at amortised cost
Investments	Financial asset at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

<u>Class</u>	<u>Category</u>
Borrowings	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

#### Initial recognition and measurement

Financial assets and financial liabilities are initially recognised at fair value. Where the municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transaction costs are included in the cost of the asset or liability.

Financial assets and financial liabilities are subsequently measured at amortised cost.

The amortised cost of financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting policies

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### 1.6 Financial instruments (continued)

#### Impairment of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence that financial assets are impaired can include:

- default or delinquency by a debtor;
- restructuring of an amount due to the municipality on terms that the municipality would not consider otherwise, indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers in the municipality;
- economic conditions that correlate with defaults, or
- the disappearance of an active market for a security

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly or by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

The municipality de-recognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the municipality is recognised as a separate asset or liability.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is de-recognised or impaired, or through the amortisation process.

#### Trade and other receivables

Trade and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting policies

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### 1.6 Financial instruments (continued)

#### Trade and other payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits. These are initially and subsequently recorded at fair value.

#### Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings.

#### Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- for financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, through the amortisation process.

### 1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting policies

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### 1.8 Inventories

Inventories include consumable stores, maintenance materials, spare parts for the plant and equipment, work in progress and land and property held for sale.

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Unsold properties for the purpose of resale are accounted for as inventory. The fair value was determined by the appointed Municipal Valuer per the Valuation Roll that came into effect on 1 July 2014. Direct costs are accumulated for each separately identifiable development. Costs also include a portion of overhead cost, if the cost occur frequently and are separately identifiable.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.9 Impairment of cash-generating assets

Assets that are subject to impairment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recovered.

An impairment loss is recognised if the recoverable amount of an asset is less than its carrying amount. The impairment loss is recognised as an expense in the financial performance statement immediately. The recoverable amount of the asset is the higher of the asset fair value less cost of disposal and its value in use.

The fair value represents the amount obtainable from the sale in an arm's length transaction between knowledgeable, willing parties.

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the assets belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or group of assets. An impairment loss is recognised whenever the recoverable amount of a cash-generating unit is less than its carrying amount.

The impairment loss is allocated to reduce the carrying amount of the asset. The carrying amount of individual assets are not reduced below the higher of its value in use, zero or fair value less cost of disposal.

A previously recognised impairment loss related to assets is reversed if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised in prior periods.

After the recognition of an impairment loss, any depreciation charge for the asset is adjusted for future periods to allocate the assets' revised carrying amount on a systematic basis over its remaining useful life.



# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting policies

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### 1.10 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

#### Identification

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

#### Value in use

Value in use of non-cash generating assets is the present value of the non-cash generating asset's remaining service potential.

The present value of the remaining service potential of a non-cash generating asset is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction(replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting policies

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### 1.10 Impairment of non-cash-generating assets (continued)

#### Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### 1.11 Employee benefits

#### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

#### Other post retirement obligations

The municipality provides post-retirement health care benefits to retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations using the projected unit credit method.

#### Long term employee benefits

The municipality provides long service awards. Awards are accrued over the period of employment. Independent qualified actuaries carry out valuations of these awards.

### 1.12 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting policies

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### 1.12 Provisions and contingencies (continued)

The discount rate is a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition, contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 34.

### 1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting policies

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### 1.13 Revenue from exchange transactions (continued)

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by:

- surveys of work performed;
- services performed to date as a percentage of total services to be performed; and
- the proportion that costs incurred to date bear to the total estimated costs of the transaction

Revenue arising from application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licenses and permits.

#### Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Interest is recognised in surplus or deficit using the effective interest rate method.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

#### Pre-paid electricity estimation

Revenue from sale of electricity, prepaid meter cards is recognised at the point of sale. The significant risks and rewards are transferred to the purchaser only once the electricity is consumed. It is estimated that prepaid electricity is consumed within five to seven days after the date of purchase. The pre-paid electricity sold, but not yet consumed at year-end is disclosed under Trade and Other Payables in the Statement of Financial Position.

Prepaid electricity is only recognised as income once the electricity is consumed. The prepaid electricity balance (included under trade and other payables) represents the best estimate of electricity sold at year end that is still unused. The average pre-paid electricity sold per day during the year under

### 1.14 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting policies

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### 1.14 Revenue from non-exchange transactions (continued)

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Revenue is measured at the fair value of the asset recorded less any liability recognised.

#### Rates, including collection charges and penalties interest

Property rates are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria of an asset.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

#### Fines

Fines constitute both spot fines and summonses.

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Where the amount due by a particular offender is specified on the notice, summons or equivalent document and the offender is informed of any reductions following certain processes within the municipality's discretion (i.e. it can decide on the reductions) these are estimated when measuring the asset (receivable) and the amount of revenue to be recognised. Any variations in the amount of reductions estimated are treated as a change in the estimated revenue and are accounted for as a change in accounting estimate.

#### Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

#### Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting policies

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### 1.15 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred and borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of the asset.

### 1.16 Self-insurance reserve

A self-insurance reserve (SIR) covers claims that may occur, subject to external insurance policy terms and conditions. Premiums are charged to the respective services taking into account claims history, the insured value of property, plant and equipment and number of fleet vehicles.

Repair and replacement costs not fully covered by external insurance are paid from the insurance cost centre expenditure account that is then financed or reimbursed by a transfer from the self-insurance reserve to the insurance cost centre income account.

The calculation for self insurance contribution for the year is computed by the insurance underwriters based on the computed amount at each year end, a transfer from the accumulated surplus is made towards the self insurance reserve.

### 1.17 Comparative figures

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason of reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

Where there has been a change in the accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Where unauthorised expenditure is not approved, it is recovered from the responsible person and the amount received is accounted for as revenue in the statement of financial performance.

### 1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.20 Irregular expenditure

Irregular expenditure is expenditure, other than unauthorised expenditure, incurred in contravention of, or that is not in accordance with a requirement of any applicable legislation.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting policies

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### 1.20 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by National Treasury or the relevant authority, is recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account is created if such a person is liable in law. Immediate steps are thereafter taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register is updated accordingly.

### 1.21 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of Generally Accepted Accounting Practices (GRAP)

### 1.22 Budget information

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the statement of comparison of budget and actual amounts.

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by the municipality provides information on whether resources were obtained and used in accordance with the legally adopted budget. The budget information is based on the same period as the actual amount.

### 1.23 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Related parties include:

Key management personnel, close members of the family of key management personnel and councillors

Key management personnel include all directors or members of the municipal council of the reporting entity where that council has jurisdiction. The council, together with the Municipal Manager and Section 56 employees has authority and responsibility to plan and control the activities of the municipality, to manage the resources and for the overall achievement of municipal objectives. Therefore, key management personnel will include the Municipal Manager, Deputy Municipal Managers and Chief Financial Officer of the municipality.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Where transactions occurred between the municipality and any one or more related parties, and those transactions were not within:

- normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances; and
- terms and conditions within the normal operating parameters established by the reporting entity's legal mandate; only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### 1.24 Events after reporting date

Events after the reporting date are defined as favourable and unfavourable events that occur between the reporting date and the date the annual financial statements are authorised for issue.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting policies

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### 1.24 Research and development expenditure (continued)

The date of authorisation for issue is the date on which the Accounting Officer signs off the annual financial statements.

Two types of events can be identified

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date)



# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
<b>2. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	9,219	9,219
Bank balances	35,785,263	44,302,508
Call accounts	88,187,200	79,482,788
	<b>123,981,682</b>	<b>123,794,515</b>

The primary banking institution is Standard bank, the following secondary banking institutions are also applicable

### The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2015	30 June 2014	30 June 2015	30 June 2014
ABSA bank - current account - 530-000-087	26,493,163	44,770,846	28,884,586	42,522,395
ABSA bank - salary account - 405-774-9059	4,851,625	433,019	4,169,157	(508,807)
First National Bank - traffic fines - 620-723-53396	854,762	645,702	854,762	645,702
ABSA bank - traffic fines - 407-683-0782	10,000	10,000	10,000	10,000
Standard bank - current account - 420-502-084	4,889,681	(190)	1,367,720	(190)
Nedbank - current account - 101-065-4888	203,692	185,252	203,692	185,252
Standard bank - current account - 021-879-370	87,794	1,448,250	87,794	1,448,250
Standard bank - current account - 080-488-129	207,542	(40)	207,542	(40)
First National Bank - current account - 624-919-68205	10	-	10	-
<b>Total</b>	<b>37,598,269</b>	<b>47,492,839</b>	<b>35,785,263</b>	<b>44,302,562</b>

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

### 2. Cash and cash equivalents (continued)

#### Call accounts

Invested with	01 July 2014	Invested	Interest capitalised	Withdrawn	Total
ABSA-9208236189	459,612	-	14,575	-	474,187
ABSA-9286830535	4,287,284	20,847,557	719,972	(24,591,419)	1,263,394
ABSA-9289887585	1,466,749	28,417,065	191,742	(30,075,556)	-
ABSA-9289903783	6,236,680	17,582,935	329,201	(22,819,288)	1,329,528
ABSA-9297189393	-	45,000,000	350,818	(45,350,818)	-
ABSA- 9297192700	-	65,334,779	476,721	(40,830,984)	24,980,516
ABSA-9297189717	-	44,665,221	358,021	(45,023,242)	-
ABSA-9297978293	-	23,602,484	384,755	(23,987,239)	-
ABSA-9297977247	-	21,623,239	334,514	(21,957,753)	-
ABSA-9297986341	-	19,963,309	143,420	(20,106,729)	-
ABSA-9307493155	-	24,774,412	154,141	(18,432,784)	6,495,769
ABSA-9298000661	-	2,500,000	112,513	(1,130,637)	1,481,876
STD Bank-	12,892,847	-	773,571	-	13,666,418
028606817#54#58#66					
STD Bank-	1,574,692	-	-	(47,894)	1,526,798
028606817#60#62					
Investec-1400192509500	29,607,246	65,961,582	-	(76,972,152)	18,596,676
Nedbank-	930,484	-	-	-	930,484
03/7881044284#015					
Nedbank-	9,105,740	-	-	-	9,105,740
03/7881044284/0025					
Nedbank-	506,797	-	9,620	(516,417)	-
03/7881044284/0033					
Nedbank-	2,991,307	-	166,794	-	3,158,101
03/7881044284/0036					
FNB-74367738977	616,335	-	22,601	(638,936)	-
FNB-74367739701	362,718	-	20,570	-	383,288
FNB-74374323399	306,678	-	13,136	(319,814)	-
FNB-74377598238	1,004,210	-	56,791	-	1,061,001
FNB-74380919140	282,106	-	15,954	-	298,060
FNB-74386379801	99,525	-	5,693	-	105,218
FNB-74388711621	459,174	-	9,302	(468,476)	-
FNB-74397968742	761,851	-	15,200	(777,051)	-
FNB-74397969584	47,746	-	2,715	-	50,461
FNB-74386451401	99,803	-	5,740	(105,543)	-
FNB-74408742994	142,938	-	8,106	-	151,044
FNB-74441636675	898,609	-	17,929	(916,538)	-
FNB-74446015478	64,118	-	3,660	(67,778)	-
FNB-62448657398	4,277,539	-	184,208	(1,333,105)	3,128,642
	<b>79,482,788</b>	<b>380,272,583</b>	<b>4,901,983</b>	<b>(376,470,153)</b>	<b>88,187,201</b>

Unlimited cession dated 25/07/2008 of a Absa call account no 9208236189, Held to partly secure (76%) of a R587 094 financial guarantee facility.

During the financial year the municipality had an overdraft of R50 million from ABSA bank and R100 million from First National Bank which were settled in full by 30 June 2015.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
<b>3. Trade and other receivables from exchange transactions</b>		
<b>Gross balances</b>		
Electricity	363,976,952	328,441,699
Water	2,108,357,949	1,652,655,336
Sewerage	693,563,441	587,498,659
Refuse	435,253,996	361,061,454
	<b>3,601,152,338</b>	<b>2,929,657,148</b>
<b>Less: allowance for impairment</b>		
Electricity	(341,351,792)	(291,382,640)
Water	(2,002,326,865)	(1,510,964,672)
Sewerage	(658,037,957)	(542,094,432)
Refuse	(417,282,918)	(336,479,886)
	<b>(3,418,999,532)</b>	<b>(2,680,921,630)</b>
<b>Net balance</b>		
Electricity	22,625,161	37,059,059
Water	106,031,084	141,690,664
Sewerage	35,525,484	45,404,227
Refuse	17,971,079	24,581,568
	<b>182,152,808</b>	<b>248,735,518</b>
<b>Age analysis</b>		
Current (0-30 days)	188,716,026	168,146,552
31 - 60 days	99,387,204	95,165,802
61 - 90 days	93,905,877	82,664,639
91 days +	3,219,143,232	2,583,680,155
	<b>3,601,152,339</b>	<b>2,929,657,148</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(2,680,921,630)	(1,816,205,912)
Contributions to allowance	(640,103,044)	(561,942,014)
Contribution VAT portion	(99,299,781)	(307,889,688)
Debt impairment written off against allowance	1,324,923	5,115,984
	<b>(3,418,999,532)</b>	<b>(2,680,921,630)</b>

### Credit quality of consumer debtors

Consumer debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in public sector, through established practices and legislation.

The credit quality of consumer debtors that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates.

All debtors accounts are assessed for impairments, where applicable we impaired debtors over 90 days.

### Bad debt - criteria for impairment

Government accounts : average ratio between 91 days and more

Sundry accounts: average ratio between 91 days and more

Business/industrial: average ratio between 91 days and more

Residential: average ratio between 91 days and more

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
<b>3. Trade and other receivables from exchange transactions (continued)</b>		
Indigent accounts: 100% of outstanding amount		
<b>4. Trade and other receivables from non-exchange transactions</b>		
Property rates	527,909,884	464,418,407
Impairment property rates	(460,736,161)	(389,364,955)
Other debtors	709,876,405	570,489,562
Impairment other debtors	(588,881,656)	(459,179,067)
Other receivables- fines	155,810,360	144,780,682
Impairment fines	(145,900,821)	(136,528,183)
Grant debtors	9,999,749	9,999,749
Impairment grant debtor	(9,999,749)	-
	<b>198,078,011</b>	<b>204,616,195</b>
<b>Reconciliation for allowance for impairment</b>		
Opening balance	(985,072,204)	(754,820,100)
Contribution to allowance	(339,187,542)	(219,593,818)
Contribution VAT portion	1,238,022	(13,605,475)
Amounts written off as uncollectible	117,503,337	2,947,189
	<b>(1,205,518,387)</b>	<b>(985,072,204)</b>
<b>Age analysis: property rates</b>		
Current (0-30 days)	46,965,779	36,345,532
31-60 days	16,311,752	14,412,944
61-90 days	13,037,892	12,365,920
91 days +	451,594,461	401,294,012
	<b>527,909,884</b>	<b>464,418,408</b>
Debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in public sector, through established practices and legislation.		
The credit quality of consumer debtors that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates.		
Interest at a rate of prime plus 2% is levied on arrear debtors accounts.		
All debtors accounts are assessed for impairments, where applicable we impaired debtors over 90 days.		
<b>5. Inventories</b>		
Consumable stores	28,539,629	26,715,133
Water	706,674	649,569
	<b>29,246,303</b>	<b>27,364,703</b>
<b>6. Value added tax receivable</b>		
VAT	81,313,057	19,525,563

Value added tax is payable on the receipts basis and is paid over to South African Revenue Services only once payment is received from debtors. The value added tax receivable relates to net input vat claimable from SARS.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

Figures in Rand

### 7. Property, plant and equipment

	2015				2014			
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value		
Building property	546,359,476	(208,939,181)	337,420,295	549,173,984	(182,196,274)	366,977,710		
Community assets	675,190,316	(104,010,093)	571,180,223	672,606,663	(87,097,226)	585,509,437		
Infrastructure	11,479,938,260	(3,056,174,945)	8,423,763,315	11,370,453,457	(2,669,307,803)	8,701,145,654		
Other assets	328,554,447	(238,055,703)	90,498,744	333,377,324	(228,704,118)	104,673,206		
Capital work in progress	693,395,519	-	693,395,519	442,410,856	-	442,410,856		
<b>Total</b>	<b>13,723,438,018</b>	<b>(3,607,179,922)</b>	<b>10,116,258,096</b>	<b>13,368,022,284</b>	<b>(3,167,305,421)</b>	<b>10,200,716,863</b>		

### Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	AUC transfers	Disposals / derecognition	Donated assets	Provision adjustment	Fair value adjustment	Depreciation	Impairment	Total
Building property	366,977,710	-	(4,812)	(978,768)	-	-	-	(28,573,835)	-	337,420,295
Community assets	585,509,437	-	-	(190,954)	4,304,595	-	-	(15,091,804)	(3,351,051)	571,180,223
Infrastructure	8,701,145,655	27,346,492	4,809,301	(8,445,830)	24,166,361	73,204,652	-	(398,147,625)	(315,691)	8,423,763,315
Other assets	104,673,206	2,746,098	176,829	(2,541,828)	-	-	1,484,037	(15,719,929)	(319,669)	90,498,744
Capital work in progress	442,410,856	255,870,606	(4,885,943)	-	-	-	-	-	-	693,395,519
<b>Total</b>	<b>10,200,716,864</b>	<b>285,963,196</b>	<b>95,375</b>	<b>(12,157,380)</b>	<b>28,470,956</b>	<b>73,204,652</b>	<b>1,484,037</b>	<b>(457,533,193)</b>	<b>(3,986,411)</b>	<b>10,116,258,096</b>

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

Figures in Rand

### 7. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	AUC transfers	Disposals / derecognition	Donated assets	Provision adjustment	Fair value adjustment	Depreciation	Impairment	Total
Building property	395,598,719	-	-	(7,362)	-	-	-	(28,613,647)	-	366,977,710
Community assets	583,767,922	16,087,033	-	(1,434,614)	1,904,307	-	-	(14,815,211)	-	585,509,437
Infrastructure	9,072,593,873	26,768,581	57,389,705	(15,916,448)	9,149,662	(39,839,155)	-	(410,170,395)	1,169,832	8,701,145,655
Other assets	122,365,557	1,775,093	67,877	(6,789,310)	2,268,739	-	7,085,815	(22,100,565)	-	104,673,206
Capital work in progress	362,824,887	136,793,868	(57,457,582)	-	177,412	-	72,271	-	-	442,410,856
	<b>10,537,150,958</b>	<b>181,424,575</b>	<b>-</b>	<b>(24,147,734)</b>	<b>13,500,120</b>	<b>(39,839,155)</b>	<b>7,158,086</b>	<b>(475,699,818)</b>	<b>1,169,832</b>	<b>10,200,716,864</b>

#### Change in estimates (Change in RULs)

Emfuleni Local Municipality technical departments reviewed the RULs on existing assets as at 1 July 2014. During the review it was decided that certain component's estimated useful life, remaining useful life and or residual value should be changed. The financial implication is that the annual depreciation will decrease by R42 896 640 in the 2014/15 financial year.

#### De-recognition

While componentising the current year additions, components were spatially linked. During the process it was found that with certain additions, projects were not to create a new asset, but rather to replace an existing asset. The replaced assets were de-recognised when the components were added. The de-recognitions amount to R17 317 965, assets based on site assessment following annual review meeting input: R1 767 706, the Johandeo sewage pump station: R75 695 and WWTW PS Pludge pump station: R388 754.

The de-recognitions were included in the 2015 fixed asset register.

#### Provision adjustment

A provision adjustment of R73 204 652 was done due to the values for the rehabilitation of landfill sites that increased significantly from that of the previous year.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

2015

2014

### 7. Property, plant and equipment (continued)

#### Fair value adjustment

Newly identified movable assets to the value of R1 474 037 were added to the fixed asset register after being fair valued.

### 8. Investment property

	2015			2014		
	Valuation	Accumulated depreciation	Carrying value	Valuation	Accumulated depreciation	Carrying value
Investment property	1,374,629,394	-	1,374,629,394	1,404,705,167	-	1,404,705,167

#### Reconciliation of investment property - 2015

	Opening balance	Fair value adjustments	Total
Investment property	1,404,705,167	(30,075,773)	1,374,629,394

#### Reconciliation of investment property - 2014

	Opening balance	Disposals / Derecognition	Fair value adjustments	Donated assets	Total
Investment property	1,138,433,327	(67,820,160)	261,797,000	72,295,000	1,404,705,167

#### Details of valuation

##### Fair value adjustments

Investment property is measured using the fair value model.

All properties were reviewed by the management. Certain land portions are being illegally occupied / encroached upon. Therefore the decision was taken to adjust the fair value to reflect the encroachment. An analysis of property sale prices for all transactions where most of the municipality's investment properties are held was performed. This analysis indicates that a -1.22% fair value adjustment is necessary for investment property as at 30 June 2015.

The total fair value adjustment for 2014/15 is R30 075 773 consisting of R16 896 942 on investment property and R13 178 831 on encroachments on investment property.

The fair value adjustments are included in the fixed asset register.

## Notes to the annual financial statements

Figures in Rand

### 9. Intangible assets

	2015			2014		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	30,722,841	(25,017,297)	5,705,544	29,407,334	(23,306,684)	6,100,650
Servitudes	13,849,516	-	13,849,516	13,849,516	-	13,849,516
Total	44,572,357	(25,017,297)	19,555,060	43,256,850	(23,306,684)	19,950,166

#### Reconciliation of intangible assets - 2015

	Opening balance	Additions	Transfers	Amortisation	Total
Computer software	6,100,649	2,031,326	(95,375)	(2,331,057)	5,705,543
Servitudes	13,849,516	-	-	-	13,849,516
	<b>19,950,165</b>	<b>2,031,326</b>	<b>(95,375)</b>	<b>(2,331,057)</b>	<b>19,555,059</b>

#### Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software	7,679,639	822,943	(2,401,933)	6,100,649
Servitudes	13,849,516	-	-	13,849,516
	<b>21,529,155</b>	<b>822,943</b>	<b>(2,401,933)</b>	<b>19,950,165</b>

During 2014 Emfuleni local municipality website was recognised in terms of iGRAP 16.

Websites are internally generated intangible assets and are initially recognised at the value of the improvement/development cost.



# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
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No intangible assets were assessed as having an indefinite useful life.

There are no intangible assets whose title is restricted.

There are no intangible assets pledged as security for liabilities.

There are no contractual commitments for the acquisition of intangible assets.

### 10. Heritage assets

	2015			2014		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets	90,316	-	90,316	90,316	-	90,316

#### Reconciliation of heritage assets 2015

	Opening balance	Total
Heritage assets	90,316	90,316

#### Reconciliation of heritage assets 2014

	Opening balance	Total
Heritage assets	90,316	90,316

#### Age and/or condition of heritage assets

Assets previously recognised as heritage assets were assessed for significance aligned with Section 3 (3) of the National Heritage Resources Act. The chief criteria for classifying an asset as heritage asset are:

- Social and cultural significance
- Historical significance
- Archaeological significance
- Architectural significance
- Aesthetic significance
- Scientific and technological significance
- Group and relationship significance
- Landmark significance

### 11. Trade and other payables from exchange transactions

Trade payables	690,443,955	490,485,532
Payments received in advance	125,951,582	80,801,189
Retentions	36,317,202	29,069,151
Accrued interest	719,550	833,815
Accrual for annual leave	53,809,615	49,694,849
Accrual for 13th cheque	19,303,877	18,506,369
Year-end salary creditors	30,307,884	28,263,801
Unclaimed wages	1,404,791	968,401
Other payables	2,784,449	1,849,047
Unrealised income	72,292,486	34,200,000
Imputed interest on creditors	(6,696,068)	(3,576,232)
	<b>1,026,639,323</b>	<b>731,095,922</b>

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
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### 11. Trade and other payables from exchange transactions (continued)

Emfuleni local municipality entered into an agreement with MBD Credit Solutions on 17 December 2014. In terms of the agreement, the municipality has granted the service provider the exclusive right to collect debts of 30 days plus in respect of the Debtors Book and perform all functions incidental thereto as expressly provided for in terms of the agreement. The agreement will be for an initial period of three years. MBD paid R100 000 000 (VAT inclusive)

In terms of the signed agreement, the commission payable to the service provider will be 35% of all collections up to a cap of R420 000 000

A trust account was opened by MBD credit solutions and the debtors can make payments in either the primary bank account of the municipality or the trust account. Transfers can be made by MBD credit solutions to the municipality from the trust account but an amount equal to the aggregate quantum of the commission earned the preceding month must be left in the account.

### 12. Consumer deposits

Electricity and water	42,380,899	37,404,062
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The amounts reflected represent a cost value. Management believes that the cost value approximates the fair value. Bank guarantees to the value of R5 967 205 form part of the amount disclosed as R42 380 899.

### 13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Municipal systems improvement grant	-	8,070
Social development grant	11,276,824	-
EPWP grant	30,200	-
Bontle ke botho	2,202,554	1,985,931
Neighbourhood development grant	4,431,807	-
National electrification grant	-	9,794,764
Library grant	1,042,120	469,332
Performance management grant	-	111,587
Sedibeng regional sewer scheme	3,607,639	9,110,125
Department of water affairs grant	930,484	930,484
Electricity demand site management grant	1,517,299	1,517,299
Regional sewer scheme	1,134,668	1,134,668
Projects funded ex Sedibeng district municipality	2,704,127	2,704,127
Municipal systems improvement grant Sedibeng	50,000	50,000
Debtors book project grant	219,952	219,952
Sport and recreation	560,132	560,132
Sedibeng maintenance grant	818,452	-
	<b>30,526,258</b>	<b>28,596,472</b>

Refer to note 22 for detailed movements on grants

### 14. Borrowings

<b>At amortised cost</b>		
Borrowings	19,827,787	23,485,389
<b>Non-current liabilities</b>		
At amortised cost	15,893,904	19,827,787

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
<b>Current liabilities</b>		
At amortised cost	3,933,883	3,657,602
The municipality has two loans with DBSA, loan #13554/101 with an interest rate of 15.74% and loan #13959/101 with an interest rate of 10.45%. Both loans are payable on a half yearly basis.		
<b>15. Finance lease</b>		
within one year	538,770	750,111
in second to fifth year	-	538,770
	<b>538,770</b>	<b>1,288,881</b>

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
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### 16. Provision

#### Reconciliation of provision - 2015

	Opening balance	Additions	Increase due to re-measurement or settlement without cost to entity	Total
Environmental rehabilitation	86,475,690	-	89,571,889	176,047,579
Provision for litigation	-	27,584,103	-	27,584,103
	<b>86,475,690</b>	<b>27,584,103</b>	<b>89,571,889</b>	<b>203,631,682</b>

#### Reconciliation of provision - 2014

	Opening Balance	Reduction due to re-measurement or settlement without cost to entity	Total
Environmental rehabilitation	121,036,959	(34,561,269)	86,475,690
Non-current liabilities		176,047,579	86,475,690
Current liabilities		27,584,103	-
		<b>203,631,682</b>	<b>86,475,690</b>

#### Environmental rehabilitation provision

The financial provision calculated represents the expenditure required for rehabilitation of the cell areas currently used (not the entire site), including areas that have been used but not rehabilitated. The expected rehabilitation costs have been determined and interest added up to the expected date of rehabilitation of the respective landfill cell areas.

The discount rate of 10.25% utilised to account for the finance cost is based on the prime lending rate plus 1%. Escalation is based on the SAFCEC indices, with allowance made for long term trends, with a figure of 6% per annum used.

The municipality has three landfill sites:

Boitshepi

Waldrift

Palm Springs

There is a fourth small but unlicensed site Vaaloewer, for which provisions for restoration has been included starting this financial year.

Boitshepi

The extent of the site is 34.4195 ha and the waste disposal area is 26.843ha and the surface area to be rehabilitated as at 30 June 2020 is 18.79ha. Disposal is licensed to be undertaken in a land build sell method from natural ground level (NGL) and will be filled to 32m above NGL at closure. According to the minimum requirements if a site is licensed (GLB+) the site can receive in excess of 500 metric tons per day of general household and dry industrial waste. The current disposal rate is approximately 15.956m3 per month(614 m3 per day).

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

2015

2014

### 16. Provision (continued)

The remaining useful life (RUL) for Boitshepi landfill sites is estimated at 3 years (until 2018), with restoration to follow 2 years there after.

The cost estimated (rehabilitation provision) for area indicated, as at 30 June 2015 is R80 445 805.98 excluding 14% VAT. The estimated cost at 30 June 2020, the year of final rehabilitation - including escalation and interest is estimated at R131 037 741.

#### Waldrift

The extent of the site is 31.8842 ha and the waste disposal area is 18.7946ha. There are 2 cells currently in operation at Waldrift landfill site, Phase 3B is expected to continue to operate for another year to 2016, with the restoration starting 2018 (two years after closure), and the restoration of phase 4A(1) in 2020 (two years after being filled in 2018). The combined surface area to be rehabilitated as at 30 June 2018 for Cell 3B (9.56ha) and June 2020 for Cell 4A(1) (0.44ha) is 10.00ha. Disposal is licensed to be undertaken in a landfill and land build cell method 3m below natural ground level (NGL) and will be filled to 25m above NGL at closure.

The estimated cost (rehabilitation provision) for the areas indicated, as at 30 June 2015 is R45 188 610.43 excluding 14% VAT. The estimated future cost during the year of final rehabilitation is R 59 346 889 for Cell 3B during 2018, and R1 470 970 for Cell 4A(1) in 2020, including escalation and interest.

#### Palm Springs

The extent of the site is 66.6384 ha and the waste disposal area is 25.0597ha. Disposal is licensed to be undertaken in a landfill and land build sell method from 1m below natural ground (NGL) and will be filled to 19m above NGL at closure. According to the minimum requirements if a site is licensed (GMB) the site can receive between 150 and 500 metric tons of general household waste per day. The current disposal rate is approximately 5000 tons per month (192 tons per day). Two cells are used for which the surface area need to be rehabilitated, the first of 6.14 ha in 2017 and the second with 4.64 ha in 2020, with a combined area of 10.7788 ha.

The cost estimated (rehabilitation provision) to close the entire site, based on a value determined at 30 June 2015 is R49 484 742.69 excluding 14% VAT. The estimated value will need to be escalated by the factor of 6% indicated to the respective dates when the closure will be undertaken.

The estimated eventual cost (rehabilitation provision) for the areas indicated, as at 30 June 2015 is R49 484 742.69 excluding 14% VAT. The estimated future cost during the year of final rehabilitation is R35 983 664 for phase 1 during 2018, and R 32 383 880 for phase 2 in 2020, including escalation and interest.

#### Vaaloewer

Provision has been made for the rehabilitation of Vaaloewer based on the cost of removing the waste and disposing it at the Waldrift site on closure of the Vaaloewer site.

The Vaaloewer site is not licensed and the two available options are to either license it with eventual conventional rehabilitation to follow - or, considering, size and cost of licensing a site, to totally remove the waste on closure and rehabilitate the area afterwards. The second option (removal of waste) has been used as basis for the cost estimate, with closure in 2026.

The provision as at 30 June 2015 for the cost of removal and rehabilitation have been estimated at a cost of R928 419. The eventual cost in 2028 including escalation and interest but excluding VAT is estimated at R3 30 157.

On this base the provisions at 30 June 2015 can be summarised as follows:

- i) Waldrift landfill site : R 45 188 610.43
- ii) Boitshepi landfill site : R 80 445 805.98
- iii) Palm springs landfill site ; R 49 484 742.69
- iv) Vaaloewer refuse site ; R 928 419.85

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
<b>16. Provision (continued)</b>		
Total provision for rehabilitation as at 30 June 2015 for all four sites at the respective closure dates is estimated at R176 047 578.95.		
<b>17. Service charges</b>		
Sewerage and sanitation charges	381,838,558	255,648,004
Sale of electricity	1,781,097,480	1,676,333,384
Sale of water	976,588,994	897,125,332
Refuse removal	172,553,268	157,902,990
	<b>3,312,078,300</b>	<b>2,987,009,710</b>

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
<b>18. Rental of facilities and equipment</b>		
<b>Premises</b>		
Rental of facilities	6,272,078	11,631,386
<b>Facilities and equipment</b>		
Rental of equipment	244,584	2,133
	<b>6,516,662</b>	<b>11,633,519</b>
<b>19. Finance income</b>		
<b>Dividend revenue</b>		
Dividends	3,025	6,050
<b>Interest revenue</b>		
Interest on arrears	33,025,129	31,332,801
Bank	7,565,093	8,078,181
	<b>40,590,222</b>	<b>39,410,982</b>
	<b>40,593,247</b>	<b>39,417,032</b>
<b>20. Other income</b>		
Access to information	275,728	300,439
Meter tampering fees	149,123	-
Capital contribution	6,675,532	7,148,850
Dishonoured cheques	75,167	61,620
Refunds	1,793,327	1,484,226
Sundries/unallocated income	261,498	5,529,894
Surplus cash	4,092	2,590
Warning services	952,579	379,824
Advertising	704,007	13,784
Informal trading revenue	204,417	271,148
Alienation of stand	56,603	64,010
Deed searches	50	-
Reconnection fees	2,871,944	1,780,056
Planning fees	206,705	183,240
Sale of tender documents	397,250	392,652
Zoning certificates	436,263	264,356
Activity room/auditorium	41,400	24,945
Building plans	1,753,738	2,265,864
Cemeteries	10,173,244	7,545,440
Entrance fees	249,980	61
General service fees	6,217,831	6,254,519
Fire rescue services	307,209	689,104
Flammable liquid	108,801	93,481
Refuse dumping landfill site	8,915,811	10,707,504
Lost and damaged library material	2,321	1,371
Industrial effluent	2,011,517	2,066,261
Sale of right to collect	45,838,207	-
	<b>90,684,344</b>	<b>47,525,239</b>

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
<b>21. Property rates</b>		
<b>Rates</b>		
Rates levied	<u>543,235,860</u>	<u>469,446,918</u>
The valuations are utilised to levy property rates on a monthly basis.		
Rebates on property rates levied can be defined as any income that the municipality is entitled by law to levy, but which has subsequently been foregone by way of rebate or remission.		
<b>Valuations</b>		
Residential	56,019,605,000	54,750,838,010
Business	8,614,046,750	7,967,196,000
Industrial	4,772,871,000	4,456,845,000
State owned properties	1,741,416,000	1,617,396,000
Municipal	985,266,000	840,267,000
Agricultural	1,219,705,000	1,159,774,000
Other	838,050,047	728,328,022
	<u>74,190,959,797</u>	<u>71,520,644,032</u>



# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
<b>22. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	602,144,000	598,857,000
HIV/AIDS grant	-	288,140
Financial management grant	1,450,000	1,300,000
Department of agriculture conservation and the environment grant	-	750,000
Municipal systems improvement grant	942,070	885,224
Social development grant	16,623,176	4,317,749
Expanded public works programme grant	4,660,800	4,885,000
Infrastructure skills development grant	-	10,000,000
Bontle ke botho	169,127	4,378
Water sanitation grant	4,062,960	-
Health and environmental subsidies	48,364,008	45,970,474
Neighbourhood development grant	568,193	-
Infrastructure asset management grant	1,000,000	-
	<u>679,984,334</u>	<u>667,257,965</u>
<b>Capital grants</b>		
Municipal infrastructure grant	157,727,000	151,925,000
National electrification programme	9,794,764	13,279,122
Library grant	4,117,213	2,801,864
Performance management grant	111,587	1,088,413
Sedibeng regional sewer scheme	5,502,487	-
	<u>177,253,051</u>	<u>169,094,399</u>
	<u><b>857,237,385</b></u>	<u><b>836,352,364</b></u>

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic and administrative services to indigent community members and to subsidise income.

### HIV/AIDS grant

Balance unspent at beginning of year	-	288,140
Conditions met - transferred to revenue	-	(288,140)
	<u>-</u>	<u>-</u>

This grant is used for various purposes depending on the business plan submitted.

### Financial management grant

Current-year receipts	1,450,000	1,300,000
Conditions met - transferred to revenue	(1,450,000)	(1,300,000)
	<u>-</u>	<u>-</u>

This grant is used to promote and support reforms in financial management by building capacity in municipalities to implement the MFMA.

### Department of agriculture conservation and the environment

Current-year receipts	-	750,000
Conditions met - transferred to revenue	-	(750,000)
	<u>-</u>	<u>-</u>

Funds used for implementation of Emfuleni alien vegetation eradication project.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
<b>22. Government grants and subsidies (continued)</b>		
<b>Municipal systems improvement grant</b>		
Balance unspent at beginning of year	8,070	3,294
Current-year receipts	934,000	890,000
Conditions met - transferred to revenue	(942,070)	(885,224)
	<u>-</u>	<u>8,070</u>

Conditions still to be met - remain liabilities (see note 13).

To assist municipalities to build in-house capacity to perform their functions and stabilise institutional governance systems as required in the Municipal Systems Act (MSA), and other related legislation policies and the local government turnaround strategy - the focus being MPRA, effective implementation of ward committees and improvement to fixed asset registers.

### Social development grant

Current-year receipts	27,900,000	4,317,000
Conditions met - transferred to revenue	(16,623,176)	(4,317,000)
	<u>11,276,824</u>	<u>-</u>

The purpose of the grant is for the construction of 20 Priority township project (Early Childhood Development Centres).

### Expanded public works programme

Current-year receipts	4,691,000	4,885,000
Conditions met - transferred to revenue	(4,660,800)	(4,885,000)
	<u>30,200</u>	<u>-</u>

To provide expanded public works programme (EPWP) incentive funding to expand job creation efforts in specific focus areas, where labour intensive delivery methods can be maximised.

### Infrastructure skills development grant

Current-year receipts	-	10,000,000
Conditions met - transferred to revenue	-	(10,000,000)
	<u>-</u>	<u>-</u>

To strengthen the capacity of local government to effectively and efficiently deliver quality infrastructure, by increasing the pool of skills available and to facilitate lifelong learning and the transfer of knowledge to the municipalities. To sustain infrastructure related capacity in local government.

### Bontle ke botho

Balance unspent at beginning of year	1,985,931	1,529,639
Current-year receipts	385,750	460,670
Conditions met - transferred to revenue	(169,127)	(4,378)
	<u>2,202,554</u>	<u>1,985,931</u>

Conditions still to be met - remain liabilities (see note 13).

The MEC agriculture conservation and environment, initiated a clean and green programme based on the Johannesburg plan of implementation, whereby the municipalities, wards and schools are encouraged to keep the nearest places clean. This is done through a campaign named Bontle ke botho which rewards the best municipality.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
<b>22. Government grants and subsidies (continued)</b>		
<b>Water sanitation grant</b>		
Current-year receipts	4,062,960	-
Conditions met - transferred to revenue	(4,062,960)	-
	<u>-</u>	<u>-</u>
The purpose of this grant is to resolve water supply problems at the identified hot spots of Iraq and river view informal settlements within the Emfuleni Local Municipality.		
<b>Health and environment subsidies</b>		
Current-year receipts	44,694,143	45,970,474
Conditions met - transferred to revenue	(44,694,143)	(45,970,474)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 13).		
It was used as an institutional support to Local Municipalities to fund the appointment and training of one Financial Municipal Intern. No funds have been withheld by the grantor		
<b>Neighbourhood development grant</b>		
Current-year receipts	5,000,000	-
Conditions met - transferred to revenue	(568,193)	-
	<u>4,431,807</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 13).		
<b>Infrastructure asset management grant</b>		
Current-year receipts	1,000,000	-
Conditions met - transferred to revenue	(1,000,000)	-
	<u>-</u>	<u>-</u>
No grant was received for the 2012/13 financial year.		
This grant is used to improve primary health care facilities in the ELM area.		
<b>Municipal Infrastructure grant</b>		
Current-year receipts	157,727,000	151,925,000
Conditions met - transferred to revenue	(157,727,000)	(151,925,000)
	<u>-</u>	<u>-</u>
This grant was used to construct roads and sewerage infrastructure as part of the upgrading of informal settlement areas. No funds have been withheld by the grantor		
<b>National electrification programme</b>		
Balance unspent at beginning of year	9,794,764	10,073,886
Current-year receipts	-	13,000,000
Conditions met - transferred to revenue	(9,794,764)	(13,279,122)
	<u>-</u>	<u>9,794,764</u>

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
<b>22. Government grants and subsidies (continued)</b>		
Conditions still to be met - remain liabilities (see note 13).		
To implement the integrated national electrification programme (INEP) by providing capital subsidies to address the electrification backlog of permanently occupied residential dwellings, the installation of bulk infrastructure and rehabilitation of electrification infrastructure in order to improve quality of supply.		
<b>Library grant</b>		
Balance unspent at beginning of year	469,332	3,107,398
Current-year receipts	4,690,000	800,000
Conditions met - transferred to revenue	(4,117,212)	(2,801,864)
Rollover not approved- paid back	-	(636,202)
	<b>1,042,120</b>	<b>469,332</b>
Conditions still to be met - remain liabilities (see note 13).		
The purpose of the grant is to financially support municipal library services in the administration of libraries, in order to render efficient, effective and economic library and information services to communities.		
An amount of R469 322 must be paid back to the donor as a 2013/2014 rollover was not granted.		
<b>Performance management grant</b>		
Balance unspent at beginning of year	111,587	-
Current-year receipts	-	1,200,000
Conditions met - transferred to revenue	(111,587)	(1,088,413)
	<b>-</b>	<b>111,587</b>
Conditions still to be met - remain liabilities (see note 13).		
To enable the municipality to carry out the improvement and automation of the municipality's performance management system.		
<b>Sedibeng regional sewer scheme</b>		
Balance unspent at beginning of year	9,110,125	9,110,125
Conditions met - transferred to revenue	(5,502,486)	-
	<b>3,607,639</b>	<b>9,110,125</b>
This grant supplements the financing of the social component of regional bulk water and sanitation. It targets projects that cut across the boundaries of several municipalities. The grant supplements regional bulk collection and wastewater treatment works. It may also be used to appoint service providers to carry out feasibility studies, related planning or management studies for infrastructure projects.		
<b>Department of water affairs and forestry</b>		
Balance unspent at beginning of year	930,484	930,484
Conditions still to be met - remain liabilities (see note 13).		
This grant is used for water demands management.		
<b>Electricity demand site management grant</b>		
Balance unspent at beginning of year	1,517,299	1,517,299

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
<b>22. Government grants and subsidies (continued)</b>		
Conditions still to be met - remain liabilities (see note 13).		
To provide subsidies to municipalities to implement electricity demand site management (EDSM) in municipal infrastructure in order to reduce electricity consumption and improve energy efficiency.		
<b>Regional sewer scheme</b>		
Balance unspent at beginning of year	1,134,668	1,134,668
Conditions still to be met - remain liabilities (see note 13).		
This grant supplements the financing of the social component of regional bulk water and sanitation. It targets projects that cut across the boundaries of other municipalities. The grant supplements regional bulk collection and waste water treatment works. It may also be used to appoint service providers to carry out feasibility studies, related planning or management studies for infrastructure projects.		
<b>Projects funded ex Sedibeng district municipality</b>		
Balance unspent at beginning of year	2,704,127	2,704,127
Conditions still to be met - remain liabilities (see note 13).		
Funds are used for upgrading of cemeteries. No funds have been withheld by the grantor.		
<b>Municipal systems infrastructure grant (Sedibeng)</b>		
Balance unspent at beginning of year	50,000	50,000
Conditions still to be met - remain liabilities (see note 13).		
Funds meant to fund an LED project. No funds have been withheld by the grantor.		
<b>Debtors book restructuring grant</b>		
Balance unspent at beginning of year	219,952	219,952
Conditions still to be met - remain liabilities (see note 13).		
To provide financial assistance to the municipality for the implementation of the Gauteng revenue enhancement and debtor management project (municipal debtors book project) and structuring of the debtors book and preparatory work.		
<b>Sports and recreation grant</b>		
Balance unspent at beginning of year	560,132	560,132
Conditions still to be met - remain liabilities (see note 13).		
<b>Sedibeng maintenance grant</b>		
Current-year receipts	818,452	-
Conditions still to be met - remain liabilities (see note 13).		
The purpose of this grant is the maintenance of farming equipment and implements donated by GDARD to Sedibeng Municipality as part of GDARD's mechanisation programme.		

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
<b>23. Fines</b>		
Traffic fines	143,668,054	153,332,375
Other fines	16,460	20,733
	<b>143,684,514</b>	<b>153,353,108</b>

In terms of IGRAP 1 the impact on the initial measurement of fines was assessed and appropriate adjustments based on assumptions were made from reliable information. The monetary value of fines as disclosed for 2014/15 was calculated from the value of fines issued less the fines withdrawn and, as granting of reductions are within the discretion of the entity issuing fines, these were deducted from the fines issued.

The debtor as disclosed in note 4 was calculated using the above assumption and the existing debtor as 30 June 2015.

Subsequent measurement was done by utilising reliable information from the previous 7 years. The average percentage payment of fines versus fines issued of the previous 7 years, deducting the average percentage of fines paid versus fines issued for 2014/15, were utilised to calculate the estimated recoverable fines for 2014/15. The recoverable amount was deducted from the calculated outstanding as at 30 June 2015 resulting in the calculated impairment of fines(R117 329 053.35)

Due to the prospective application of the revised IGRAP 1, the Municipality raised a receivable as well as an impairment charge on unpaid fines in the current year.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
<b>24. Employee related costs</b>		
Basic salaries	513,347,616	483,153,966
13th cheque	38,475,339	36,908,297
Medical aid - company contributions	40,215,875	36,478,587
Unemployment insurance fund (UIF)	4,045,822	4,083,441
Redemption of leave	11,582,290	11,880,482
Leave pay and 13th cheque contribution	4,912,275	3,480,547
Long service awards and medical aid	1,779,228	4,990,255
Pension fund contribution	96,045,047	92,045,110
Overtime payments	42,608,956	55,332,602
Car allowance	36,901,686	36,702,678
Housing benefits and allowances	2,520,833	2,271,840
Other allowance	18,320,942	16,506,152
Group insurance	32,705,814	27,578,371
Skills development and casualty contributions	13,072,874	12,723,724
	<b>856,534,597</b>	<b>824,136,052</b>
<b>Municipal Manager</b>		
Annual Remuneration	2,037,754	1,893,059
Car Allowance	427,736	427,736
	<b>2,465,490</b>	<b>2,320,795</b>
<b>Chief Financial Officer</b>		
Annual remuneration	1,360,492	1,272,749
Travel, motor car, accommodation, subsistence and other allowances	138,000	138,000
	<b>1,498,492</b>	<b>1,410,749</b>
<b>Corporate Services (DMM)</b>		
Annual remuneration	1,335,981	1,328,273
Travel, motor car, accommodation, subsistence and other allowances	233,000	193,000
	<b>1,568,981</b>	<b>1,521,273</b>
<b>Basic Services (DMM)</b>		
Annual remuneration	-	1,100,203
Travel, motor car, accommodation, subsistence and other allowances	-	10,500
	-	<b>1,110,703</b>
The position of DMM: Basic Services was vacant for the 2014/2015 financial year, and an incumbent was appointed to act in the position.		
<b>Chief Audit Executive</b>		
Annual remuneration	1,395,558	1,302,287
Travel, motor car, accommodation, subsistence and other allowances	196,200	196,200
	<b>1,591,758</b>	<b>1,498,487</b>

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
<b>24. Employee related costs (continued)</b>		
<b>Economic Development and Planning (DMM)</b>		
Annual remuneration	1,573,758	1,480,487
Travel, motor car, accommodation, subsistence and other allowances	18,000	18,000
	<b>1,591,758</b>	<b>1,498,487</b>
<b>Public Safety &amp; Community Development (DMM)</b>		
Annual remuneration	1,485,736	1,360,487
Travel, motor car, accommodation, subsistence and other allowances	138,000	138,000
	<b>1,623,736</b>	<b>1,498,487</b>
<b>Infrastructure Planning and Asset Management (DMM)</b>		
Annual remuneration	-	789,754
Travel, motor car, accommodation, subsistence and other allowances	-	108,500
	<b>-</b>	<b>898,254</b>
The position of DMM: Infrastructure Planning and Asset Management was vacant during the 2014/2015 financial year, and an incumbent was appointed to act in the position.		
<b>Chief Operating Officer</b>		
Annual remuneration	1,865,881	1,552,806
Travel, motor car, accommodation, subsistence and other allowances	138,000	138,000
	<b>2,003,881</b>	<b>1,690,806</b>
<b>Chief Risk Officer</b>		
Annual remuneration	967,819	1,059,352
Travel, motor car, accommodation, subsistence and other allowances	138,000	158,000
	<b>1,105,819</b>	<b>1,217,352</b>
<b>Chief Information Officer</b>		
Annual remuneration	1,055,649	980,283
Travel, motor car, accommodation, subsistence and other allowances	234,000	234,000
	<b>1,289,649</b>	<b>1,214,283</b>
<b>Head of Revenue</b>		
Annual remuneration	627,949	1,480,487
Travel, motor car, accommodation, subsistence and other allowances	7,500	18,000
Annual leave	111,359	-
Gratuity	493,497	-
	<b>1,240,305</b>	<b>1,498,487</b>

The position for Head of Revenue was vacant for the last six months of the 2014/2015 financial year, and an incumbent was appointed to act in the position.



# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
<b>24. Employee related costs (continued)</b>		
<b>Head Strategic Manager: Support</b>		
Annual remuneration	958,750	972,850
Travel, motor car, accommodation, subsistence and other allowances	138,000	138,000
	<b>1,096,750</b>	<b>1,110,850</b>
<b>Chief Director: Metsi a Lekoa</b>		
Annual remuneration	680,160	952,125
Travel, motor car, accommodation, subsistence and other allowances	41,332	60,600
Annual leave	39,250	-
	<b>760,742</b>	<b>1,012,725</b>
The position for Chief Director: Metsi a Lekoa was vacant for the last four months of the 2014/2015 financial year and an incumbent was appointed to act in the position.		
<b>25. Remuneration of councillors</b>		
Mayoral Committee members	9,073,207	9,340,911
Councillors	36,257,760	33,394,937
	<b>45,330,967</b>	<b>42,735,848</b>
<b>Mayor</b>		
Annual remuneration	883,229	731,453
Travel, motor, accommodation, subsistence and other allowances	336,230	322,210
	<b>1,219,459</b>	<b>1,053,663</b>
<b>Speaker</b>		
Annual remuneration	713,312	585,162
Travel, motor, accommodation, subsistence and other allowances	279,591	266,132
	<b>992,903</b>	<b>851,294</b>
<b>In-kind benefits</b>		
The office of the Executive Mayor, Speaker and Mayoral Committee members are full time positions. Each is provided with an office and secretariat support at the cost of the municipality.		
The Mayor and Speaker make use of a municipal owned vehicle for official duties.		
<b>26. Finance costs</b>		
Interest: external borrowings and creditors	13,776,466	7,734,857
Interest landfill site rehabilitation	16,367,235	5,277,859
Interest post employee benefits: health care	11,256,000	11,622,931
Interest long service awards	5,848,000	3,182,943
	<b>47,247,701</b>	<b>27,818,590</b>
<b>27. Bulk purchases</b>		
Electricity	1,411,616,164	1,362,266,652
Water	566,590,697	512,430,717
	<b>1,978,206,861</b>	<b>1,874,697,369</b>

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
<b>28. General expenses</b>		
Advertising	3,172,486	4,261,198
Audit fees	6,196,170	5,455,557
Bank charges	3,524,668	2,575,317
Commission paid	9,335,355	7,149,238
Consulting and professional fees	16,241,912	18,847,854
Consumables	4,399,546	5,571,144
Insurance	46,411,309	39,978,102
Conferences and seminars	3,791,621	4,019,419
Magazines, books and periodicals	241,263	452,755
Medical expenses	98,092	88,723
Relocation cost	160	20,497
Postage and courier	4,461,609	5,908,725
Printing and stationery	5,393,979	5,359,183
Bursary fund	1,392,887	1,468,855
Royalties and license fees	2,159,366	2,420,028
Security (guarding of municipal property)	46,917,948	734,697
Software licensing	487,742	2,117,991
Subscriptions and membership fees	9,408,423	6,013,575
Telephone and fax	9,267,777	7,305,784
Training	13,350,629	17,582,114
Uniforms	5,241,194	4,520,540
Special programmes	49,044,303	76,849,845
Arbitration awards	531,817	113,643
Indigent support	364,370,393	362,280,260
Valuation roll expense	177,650	21,200
Public expenditure	1,388,568	968,286
Lease rentals	62,568,788	58,292,499
Disaster relief	68,979	71,402
Other expenses	179,118,251	90,423,724
	<b>848,762,885</b>	<b>730,872,155</b>

"Other expenses" consist of various minor expenses.

## 29. Cash generated from operations

Deficit for the year	(541,960,343)	(177,952,767)
<b>Adjustments for:</b>		
Depreciation and amortisation	463,850,663	477,059,423
Fair value adjustments	28,590,497	(268,959,581)
Finance costs - Finance leases	5,848,000	3,182,943
Debt impairment	979,290,586	781,535,833
Employee benefit obligation	2,569,000	1,119,500
Contribution to provisions	121,270,759	(34,561,269)
Donations	(28,470,957)	(84,271,926)
Loss on sale of asset	11,575,486	88,308,316
Non-cash movement in assets	(73,204,652)	39,839,155
<b>Changes in working capital:</b>		
Inventories	(1,881,600)	(3,318,272)
Trade and other receivables from exchange transactions	(573,520,331)	(454,673,133)
Other receivables from non-exchange transactions	(332,649,359)	(19,423,257)
Trade and other payables from exchange transactions	285,580,635	66,320,909
VAT	(61,787,494)	(233,239,963)
Unspent conditional grants and receipts	1,929,786	(2,632,673)
Decrease/Increase in current borrowings	276,281	221,830
Finance lease	(211,341)	(637,551)
	<b>287,095,616</b>	<b>177,917,517</b>

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
<b>30. Correction of error</b>		
During the 2014/15 financial year adjustments were made to transactions whereby amounts were erroneously stated in previous financial periods. The comparative amounts have been restated as follows:		
<b>Statement of financial position</b>		
Trade and other receivables from non exchange transactions	2,846,249	
Inventory	878	
VAT receivable	(40,806)	
Property plant and equipment	1,873,743	
Investment property	1,672,430	
Trade and other payables	7,107,100	
Finance lease liability	583,154	
Employee benefit obligation	10	
Sanlam shares	(78,755)	
	<b>13,964,003</b>	

<b>Statement of financial performance</b>	
Other income	10,661,834
Actuarial gains	(10,414,552)
Donations	(2,420,809)
Employee related costs	2,319,428
Depreciation and amortisation	983,545
Finance costs	242,736
Repairs and maintenance	(540,267)
Bulk purchases	(878)
Contracted services	72,735
Loss / gain on disposal of assets	111,676
General expenses	(13,382,379)
Fair value adjustment	(1,597,072)
	<b>(13,964,003)</b>

### Financial position

#### Cash & Cash Equivalents

This is mainly due to reclassification of uncashed cheques

#### Finance lease liability

During the 2014/15 it was discovered that the vehicles for fire and emergency for the contract entered into in 2012/2013 were not capitalised this was corrected in this current financial year.

#### Inventory

This is to correct the calculation for the water stock on hand in the previous financial year which did not take into account the water research levy.

#### Investment property

Investment property that was previously held for sale prior years was brought back on to the asset register during this current year

#### Heritage Assets

Reclassification of Heritage assets to property, plant and equipment

#### Sanlam Shares

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

2015

2014

### 30. Correction of error (continued)

The adjustment is as a result of an incorrect number of shares accounted for in the previous financial years.

#### Property plant and equipment

These are developer donated assets relating to the 2013/14 financial year which are being accounted for at fair value as they are ready for use.

#### Trade and other payables

Incorrectly accounted for trade and other payables

#### Trade and other receivables from non exchange transactions

Cemetery accounts disclosure

#### Statement of Financial Performance

##### Other Income

In the previous financial year the actuarial gain was disclosed as part of other income, for better presentation purposes the actuarial gains have been shown separately in the face of the income statement.

##### Donation

These are developer donated assets relating to the 2013/14 financial year which are being accounted for at fair value as they are ready for use.

##### Employee related cost

Reclassification of Acturial loss which was previously disclosed as part of provision contribution for medical aid and long service awards

##### Depreciation

The adjustment is as a result of additions and finance leased assets which were not accounted for in the previous financial year being brought into the books, as a result our depreciation charge for the previous financial year increases.

##### Finance cost

This relates to interest payment on leased vehicles which were previously not accounted for as finance leases, this was corrected in the current financial year.

##### Repairs and maintance

This relates to expenditure which was previously incorrectly accounted for as Work in Progress which is now being reclassified to repairs and maintenance.

##### Bulk purchases

This is to correct the calculation for the water stock on hand in the previous financial year which did not take into account the water research levy.

##### Contracted services

This relates to two invoices for professional services rendered by PWC in the previous financial year which were not accounted for.

##### Loss/gain on disposal

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

2015

2014

### 30. Correction of error (continued)

This relates mainly to roads and sanitation assets which were derecognised and replaced in the previous financial year. The loss resulting from the derecognition was not accounted for.

#### General expenses

This mainly relates to expenditure relating to Eskom and E-toll invoices which were previously not accounted for.

#### Fair value adjustment

The correction is mainly due to the adjustment of fair value of shaares and stands in Powerville which were previously held for sale and are brought back to the asset register.

Included in the opening balance of accumulated surplus is the net amount of R43 755 165 resulting from adjustments relating to periods prior to 2013/2014 financial year.

### 31. Unauthorised, irregular, fruitless and wasteful expenditure

Opening balance	4,611,934	4,504,002
Fruitless and wasteful expenditure	1,136,887	107,932
Unauthorised expenditure	568,193	-
	<u>6,317,014</u>	<u>4,611,934</u>

Interest amounting to R1 136 887, was incurred due to late payment of accounts.

A neighbourhood partnership grant was awarded to Emfuleni local municipality for the development of the Nelson Mandela square, however, National treasury was not satisfied with the service provider appointed and informed the municipality in due course. Nevertheless, the process continued then National treasury requested that the grant be refunded, resulting in unauthorised expenditure of R568 193 for the municipality.

### 32. Additional disclosure in terms of Municipal Finance Management Act

#### PAYE and UIF

Opening balance	9,942,033	9,292,682
Current year subscription / fee	133,874,668	126,457,809
Amount paid - current year	(122,795,323)	(116,515,776)
Amount paid - previous years	(9,942,033)	(9,292,682)
	<u>11,079,345</u>	<u>9,942,033</u>

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
<b>32. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>Councillors' arrear consumer accounts</b>		
The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2015:		
30 June 2015		Total
Mvala O		19,086
Thulo PM		3,336
		<b>22,422</b>
30 June 2014		Total
Maseko BP		18,227
Maraka TP		7,800
		<b>26,027</b>

## 33. Electricity and water distribution losses

Distribution losses relate to unaccounted for electricity and water losses. These losses arise mainly from illegal connections from both electricity and water networks, physical losses due to network operations and economical losses due to faulty meters. The total distribution losses are as follows:

<b>Electricity</b>		
Kilowatts	329 351 935	456 559 002
Amount	220,031,941	278,500,991
Percentage	15.5%	20.4%
<b>Water</b>		
Kilolitres	31 049 113	31 549 282
Amount	186,496,567	175,255,483
Percentage	32.9%	34.1%

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

### 34. Contingencies

#### Contingent liability (civil matters)

Claim number	Description	Amount
1	Vaalshow grounds - property rights	80,000,000
2	Pele Selepe - claim for negligence	5,000,000
3	Aphane consulting - contractual claim	3,615,910
4	L Mnyandeni - dilectual claim	3,500,000
5	Inhlavuka consult - contractual claim	3,187,346
6	Spies and Nkamane - third party claim	1,762,924
7	C De Jager - claim defamation	1,500,000
8	DJ Bischoff - unlawful dismissal	1,200,000
9	Nurcha Finance - contractual claim	875,588
10	B du Preez - dilectual claim	807,433
11	Divinity - contractual claim	724,794
12	NG Kubheka - dilectual claim	651,000
13	ERWAT - contractual claim	608,819
14	Management design - contractual	275,410
15	M McClean - dilectual claim	200,000
16	PH Haman CC - dilectual claim	137,014
17	PJ Pienaar - unlawful detention	100,000
18	Reality North - third party claim	70,000
19	BF Peterson - dilectual claim	60,000
20	MZ Lesenyeho - unlawful arrest	50,000
21	L Mafale - unlawful arrest	50,000
22	D Pather - damage to property	38,475
23	PI Kloppers - damage to property	29,024
24	JJ Cilliers - damage to property	23,159
25	JP De la Porte - damage to property	22,200
26	E Pretorius - dilectual claim	10,038
		<b>104,499,134</b>

#### Contingent liabilities (insurance)

During the 2014/15 financial year, the municipality encountered 81 claims, with a total of R752 289.92.

### 35. Related parties

#### Section 56 managers Councillors

##### Section 56 managers

Section 56 managers (management) received compensation as set out in note 24.

No remuneration was paid to families of Section 56 managers

##### Members of council

Members of council received compensation as set out in note 25.

No remuneration was paid to family members of council.

All councillors and employees have disclosed their financial interests.

### 36. Events after the reporting date

The municipality acquired an overdraft facility amounting to R150 million after the reporting date as resolved by council.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

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### 37. New standards and interpretations

#### 37.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations as implementation dates of these standards have not yet been announced.

#### GRAP 18: Segment reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is yet to be announced.

#### GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

#### GRAP32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.



# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

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### 37. New standards and interpretations (continued)

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### GRAP108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

2015

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### 37. New standards and interpretations (continued)

Changes in standards as per review effective for accounting periods starting on or after 1 April 2015

#### GRAP 1 – Presentation of financial statements

Paragraphs, 11, 44, 46, 49 and 51 were amended and paragraphs 45, 47 and 48 were added by the improvements to the Standards of GRAP issued on 1 April 2014.

The effective date of the amendment is for years beginning on or after 01 April 2015.

The municipality expects to adopt the amendment for the first time in 2016 financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosures than is currently provided in the financial statements.

#### GRAP 2 - Cash flow statements

Amendments were made to the scope and definitions.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2015.

The municipality expects to adopt the amendment for the first time in the 2016 financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosures than is currently provided in the financial statements.

#### GRAP 3 – Accounting policies, changes in accounting estimates

The effective date of the amendment is for years beginning on or after 01 April 2015.

The municipality expects to adopt the amendment for the first time in the 2016 financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the financial statements.

#### GRAP 23 – Revenue from non-exchange transactions

Paragraphs 10, 25, 26, 29, 30, 31, 42, 84, 99, 101, 102, 103, 108, 109, 112, 113, 116, 117, and 124 were amended, paragraphs 03, 05, 100, 101, 103, 104 and 107 were added and paragraph 103 was deleted by the improvements to the Standards of GRAP issued on 1 April 2014.

Amendments were made to the scope and definitions.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2015.

The municipality expects to adopt the amendment for the first time in the 2016 financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosures than is currently provided in the financial statements.

#### GRAP 24 – Presentation of budget information

The effective date of the amendment is for years beginning on or after 01 April 2015.

All amendments to be applied prospectively.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

2015

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### 37. New standards and interpretations (continued)

The municipality expects to adopt the amendment for the first time in the 2016 financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosures than is currently provided in the financial statements.

### GRAP 25 – Employee benefits

Paragraphs 05, 53, and 123 was amended by the improvements to the Standards of GRAP issued on 1 April 2015.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2015.

The municipality expects to adopt the amendment for the first time in the 2016 financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosures than is currently provided in the financial statements.

### GRAP 26 – Impairment of cash-generating assets

Paragraphs 10, 12, 13, 14, 15, 16, 23, 26, 28, 80, 100 and 120 were amended by the improvements to the Standards of GRAP issued on 1 April 2015.

Amendments were made for the scope of the definitions.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2015.

The municipality expects to adopt the amendment for the first time in the 2016 financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosures than is currently provided in the financial statements.

### GRAP 31 - Intangible assets

Paragraph 87 was added and paragraphs 74, 79, 86 and 113 were amended by the improvements to the Standards of GRAP issued 01 April 2015.

Amendments were made for the scope of the definitions.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2015.

The municipality expects to adopt the amendment for the first time in the 2016 financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosures than is currently provided in the financial statements.

### GRAP 100 – Discontinued operations

Paragraph 04 was amended by the improvements to the Standards of GRAP issued on 01 April 2014.

The amendments are as follows:

(a) Changes to the way in which non-current assets held for sale are measured, will be applied prospectively at the beginning of the period in which these amendments are adopted

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

2015

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### 37. New standards and interpretations (continued)

(b) Changes to the way that non-current assets held for sale are classified and presented on the statement of financial position and accompanying notes will be applied retrospectively by adjusting for the earliest period presented.

Amendments were made for the scope of the definitions.

The effective date of the amendment is for years beginning on or after 01 April 2015.

The municipality expects to adopt the amendment for the first time in the 2016 financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosures than is currently provided in the financial statements.

### GRAP 103 – Heritage assets

Paragraphs 02, 03, 04, 11, 16, 26, 27, 37, 53, 56, 57, 82, 83 and 84 were amended and paragraphs 34 and 33 were added by the improvements to the Standards of GRAP issued on 01 April 2014.

Amendments were made for the scope of the definitions.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2015.

The municipality expects to adopt the amendment for the first time in the 2016 financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosures than is currently provided in the financial statements.

### GRAP 104 – Financial instruments

Paragraphs 84, 87, and 89 were amended and paragraphs 85 were added by the improvements to the Standards of GRAP issued on 01 April 2014.

The effective date of the amendment is for years beginning on or after 01 April 2015.

The municipality expects to adopt the amendment for the first time in the 2016 financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosures than is currently provided in the financial statements.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
<b>38. Employee benefit obligations</b>		
<b>Post employment health care benefits</b>		
Opening accrued liability	129,951,000	145,782,592
Current-service cost	1,156,000	1,508,454
Interest cost	11,256,000	11,622,931
Contributions paid	(8,715,000)	(8,262,077)
Total annual expense	-	-
Actuarial loss/(gain)	(3,808,000)	(20,700,900)
	<b>129,840,000</b>	<b>129,951,000</b>

The projected unit credit funding method has been used to determine the past service liabilities at the valuation date and the projected annual expense in the year following the valuation date. The valuation was performed by ZAQ Consultants and Actuaries.

The projected Unit Credit Method has been used to value the liabilities.

The main reasons for the actuarial gain can be attributed to the following factors:

1. Changes in economic variables – In this year's valuation we used the nominal and real zero curves as at 30 June 2015 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. As a result the interest rates, bond yields and inflation figures changed. This resulted in an overall increase in the liability of around R 432,000.
2. Changes in membership and other smaller assumptions – There were various changes in the membership data between the two valuations and more members left the data set than assumed. The net effect of these and other smaller changes in assumptions and experience was a decrease in the liability of around R 3,488,000..

### Key assumptions used

GRAP 25 defines the determination of the discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

#### Discount rate

The nominal and real zero curves as at 30 June 2015 supplied by the JSE was used to determine the discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, the prevailing yield at the time of performing the calculations was used. This methodology was changed from a point estimate in order to present a more accurate depiction of the liability. For example a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

#### Medical aid inflation

The medical aid contribution inflation rate was set with reference to the past relationship between the (yield curve based) discount rate for each relevant time period and the (yield curve based) medical aid contribution inflation for each relevant time period.

South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 1% per annum over the foreseeable future

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
<b>38. Employee benefit obligations (continued)</b>		
The assumption was made that medical aid contribution increases would out-strip general inflation by 1% per annum over the foreseeable future.		
Average retirement age		
The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill health and early retirements.		
Normal retirement age		
The normal retirement age (NRA) for all active employees was assumed to be 65 years.		
Mortality rates		
Mortality before retirement has been based on the SA 85-90 mortality tables. these are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.		
On the basis of the information supplied and the actuarial assumptions used, the value of the municipality's liability for future subsidies of medical aid contributions has been calculated as at the valuation date, and is summarised below.		
Accrued liability		
The accrued liability is given below and is split between the current employees and continuation members (pensioners).		
<b>Category</b>		
Current (in-service) members	31,938,000	35,850,000
Continuation members (pensioners)	97,902,000	94,101,000
	<b>129,840,000</b>	<b>129,951,000</b>
Key financial assumptions		
<b>Assumption</b>		
Discount rate	Yield curve	8.94%
Medical aid contribution inflation	CPI +1	8.05%
Consumer price inflation	Difference between nominal and yield curve	7.05%
Net effective discount rate	Yield curve based	0.82%
Key demographic assumptions		
<b>Assumption</b>		
Average retirement age	63	63
Continuation of membership at retirement	100%	90%
Proportion assumed married at retirement	90%	90%
Proportion of eligible current non-member employee joining the scheme by retirement	20%	20%
Mortality during employment	SA 85-90	SA 85-90
Mortality post retirement	PA90-1	PA90-1 ultimate

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

2015

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### 38. Employee benefit obligations (continued)

#### Withdrawal from service (sample annual rates)

##### 2014/2015

Age	Female	Male
20-24	24%	16%
25-29	18%	12%
30-34	15%	10%
35-39	10%	8%
40-44	6%	6%
45-49	4%	4%
50-54	2%	2%
55-59	1%	1%
60+	0%	0%

##### 2013/2014

Age	Female	Male
20	16%	24%
30	16%	24%
40	6-10%	6-15%
50	2-6%	2-6%
>55	0-1%	0-1%

#### Comparison with the preceding valuation

The section below compares the figures between the valuation dates and summarises the primary reasons for the changes in the liabilities since the last valuation

##### Membership changes

Changes to current (in-service) membership as at the valuation dates:

	30-06-2015 Valuation	30-06-2014 Valuation	% Change
Number of active employees	125	140	-10.7%
Proportion male	69%	67%	2.5%
Subsidy weighted average age	53.3	53.2	0.2%
Subsidy weighted average past service	25.95	24.7	5.2%
Average monthly subsidy	R3 030	R2 830	7.0%

Changes to continuation membership (pensioners' membership) as at the valuation dates:

	30-06-2015 Valuation	30-06-2014 Valuation	% Change
Number of principal members	261	261	0.00%
Proportion male	48%	48%	0.80%
Average monthly subsidy	74.69	74.2	0.70%
Average monthly subsidy	R3 020	R2 860	5.60%

Changes in valuation assumptions as at the valuation dates.

#### Long service awards

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
<b>38. Employee benefit obligations (continued)</b>		
The projected unit credit method has been used in the actuarial valuation of the liabilities. The valuation was performed by ZAQ Consultants and Actuaries.		
Opening accrued liability	73,386,000	56,434,878
Current-service cost	5,831,000	3,761,349
Interest cost	5,848,000	3,182,943
Benefit vestings	(5,207,772)	(279,548)
Actuarial loss / (gain)	(3,791,228)	10,286,348
	<b>76,066,000</b>	<b>73,385,970</b>

The main reasons for the actuarial gain can be attributed to the following factors:

### Changes in economic variables

1. Changes in economic variables – In this year's valuation the nominal and real zero curves as at 30 June 2015 supplied by the JSE were used to determine the discount rates and CPI assumptions at each relevant time period. As a result the interest rates, bond yields and inflation figures changed significantly. This resulted in a decrease in liability of around R 433 000.

2. Membership data changes – Over the past financial year, there were various membership changes in the data and more members left service than expected. This, along with some other smaller changes, resulted in an overall decrease in liability of around R 3 358 228.

### Assumptions

The most relevant actuarial assumptions used in this valuation are discussed below.

### Financial variable

The following values for these variables were assumed:

Financial variable	Assumed value 30-06-2015 (current valuation)	Assumed value 30-06-2014 (preceding valuation)
Discount rate	8.49%	7.96%
CPI (consumer price inflation)	6.78%	6.33%
Normal salary increase rate	7.78%	7.33%
Net effective discount rate	0.66%	0.59%

### Discount rate

GRAP 25 defines the determination of the discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

To obtain the applicable discount rate, the implied duration of the liability to obtain an appropriate interest rate on the yield curve was used. The nominal and real zero curves as at 30 June 2015 supplied by the JSE to determine the discounted rates and CPI assumptions was used.

### Normal salary inflation rate



# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

2015

2014

### 38. Employee benefit obligations (continued)

The underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) were derived. Inflation-linked Bond rate for each relevant time period. The assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2015 of 6.79%. As at the time of this valuation South African Municipal salaries' negotiations were still in progress. Therefore, for the purpose of performing this valuation, it was assumed that the previous year's increase rate of 6.79% is still relevant in this year's valuation.

#### Average retirement age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill health and early retirements.

#### Normal retirement age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

#### Mortality rates

Mortality before retirement has been based on the SA 85-90 mortality tables.

#### Key financial assumptions

Discount rate	8.49%	7.07%
Future salary inflation rate per annum	6.78%	6.72%
Normal salary increase rate	7.78%	
Net effective discount rate	0.66%	0.33%

#### Key demographic assumptions 2015

#### Withdrawal decrements

A table setting out the assumed rates of withdrawal from service is set out below:

Age band	Males	Females
20-24	16%	24%
25-29	12%	18%
30-34	10%	15%
35-39	8%	10%
40-44	6%	6%
45-49	4%	4%
50-54	2%	2%
55-59	1%	1%
60+	0%	0%

Average retirement age	63 for males	63 for males
	63 for females	60 for females
Mortality during employment	SA 85-90	SA 85-90

The projections assume that the LSA arrangements will remain as outlined and that all the actuarial assumptions made are borne out of practice. In addition, it is assumed that no contributions are made by the employer towards prefunding its liability via an off-balance sheet vehicle. There are no past service costs, curtailments or settlements to reflect.

Full details are included in the actuarial valuation report at the municipality.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014		
<b>38. Employee benefit obligations (continued)</b>				
Withdrawal rate				
Deviations from the assumed level of withdrawal experience of the eligible employees will have a large impact on the actual cost to the municipality. If the actual rates of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost to the municipality in the form of benefits will reduce and vice versa.				
The effect of higher and lower withdrawal rates are illustrated by increasing and decreasing the withdrawal rate by 20%. The effect is as follows:				
	-0.20% withdrawal rate	Valuation assumption	+0.20 withdrawal rate	
Total accrued liability	79,837,000	76,066,000	72,682,000	
Current service cost	6,269,000	5,787,000	5,368,000	
Interest cost	6,823,000	6,483,000	6,178,000	
	<b>92,929,000</b>	<b>88,336,000</b>	<b>84,228,000</b>	
Normal salary inflation				
The cost of the long service awards is dependent on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of future retirees.				
The effect of a 1% p.a. change in normal salary inflation was tested and the effect is as follows:				
	-1% Normal salary inflation	Valuation assumption	+1 Normal salary inflation	
Total accrued liability	70,321,000	76,066,000	82,496,000	
Total accrued liability	5,256,000	5,787,000	6,393,000	
Interest cost	5,972,000	6,483,000	7,054,000	
	<b>81,549,000</b>	<b>88,336,000</b>	<b>95,943,000</b>	
Changes in the value obligation:				
	Current valuation date 30-06-2015	1 year following the valuation date	2 years following the valuation date	3 years following the valuation date
PV of the obligation as at the previous valuation date	73,386,000	76,066,000	84,107,000	92,777,455
Current service cost	5,831,000	5,787,000	6,025,476	6,297,346
Interest cost	5,848,000	6,483,000	7,202,979	7,935,571
Benefits paid	(5,207,772)	(4,229,000)	(4,558,000)	(4,913,000)
Actuarial loss/ (gain)	(3,791,228)	-	-	-
	<b>76,066,000</b>	<b>84,107,000</b>	<b>92,777,455</b>	<b>102,097,372</b>
Amounts in statement of financial position and statement of financial performance				
	Current valuation date 30-06-2015	1 year following the valuation date	2 years following the valuation date	3 years following the valuation date
Liability recognised in statement of financial position	76,066,000	84,107,000	92,777,455	102,097,372
Current service cost in statement of financial performance	5,831,000	5,787,000	6,025,476	6,297,346
Interest cost in statement of financial performance	5,848,000	6,483,000	7,202,979	7,935,571
Actuarial loss/(gain) in OCI	(3,791,228)	-	-	-
	<b>83,953,772</b>	<b>96,377,000</b>	<b>106,005,910</b>	<b>116,330,289</b>

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

	2015	2014
<b>38. Employee benefit obligations (continued)</b>		
The awarded leave days were converted to a percentage of annual salary by assuming there are 250 working days per year. The expected value of each employee's long service award is projected to the next interval by allowing for future salary growth. The table below contains a summary of the benefit policy:		
Long service awards for levels of past service.		
Long service awards for levels of past service	Total long service benefit award(% of annual salary)	Service benefit Award
10	4.00%	(10/250)* Annual salary
15	8.00%	(20/250)* Annual salary
20 and every five years thereafter	12.00%	(30/250)* Annual salary
Monetary gifts for levels of past service		
Completed years of service		
20	7,020	
25	7,020	
30	9,837	
35	12,229	-
40 and every five	17,009	
Specifics:		
<ul style="list-style-type: none"> <li>In the month that each "completed service" milestone is reached, the employee is granted long service award:</li> <li>Working days awarded are valued at 1/250th of annual salary per day;</li> <li>These monetary amounts increase at CPI + 1% each year; and</li> </ul>		
The amounts stated in the previous report have been inflated by 7.6% in order to obtain the current levels.		
<b>39. Deviation from supply chain management regulations</b>		
Paragraph 12(1)(d)(i) of Government Gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.		
Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.		
<b>Description</b>		
Deviations	29,740,408	28,326,200
<b>40. Budget differences</b>		
<b>Material differences between budget and actual amounts</b>		
<b>Interest earned</b>		
More investments were made than anticipated resulting in higher interest. Interest on service charges is also part of the amount and higher debtors lead to increased interest.		
<b>Fines</b>		
Traffic fines were accounted for in terms of iGRAP1 resulting in higher fines values while the budgeted amounts were not. The budgeted amounts have been corrected in the 2015/2016 financial year.		

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

2015

2014

### Grants

An amount of R160 million relating to the Regional Bulk infrastructure Grant was included in the budget amount. The implementing agent of the project is now Rand Water and as such the amount was not paid over to the municipality.

### Other Income

The budgeted amount includes an upfront instrument of R100 million which was paid over to the municipality in terms of a debt restructuring agreement and which was provided for in the budget as revenue. Amounts relating to services charges - other (amounts not allocated) are also part of the budget amount.

### Debt Impairment

More bad debtors were written off than was anticipated.

### Depreciation

Higher asset values after GRAP17 implementation resulted in higher depreciation amounts. The budgeted amounts are increased on an annual basis to match the depreciation amounts.

### Finance charges

Overdraft utilised during the financial year resulted in higher interest.

### Contracted services

This is a result of payment of creditors for services rendered.

## 41. Risk management

### Capital risk management

The capital structure of the municipality consists of debt, which includes the borrowings, cash and cash equivalents, and equity.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (and more specifically, interest rate risk, cash flow interest rate risk), credit risk and liquidity risk.

Risk management is carried out under policies approved by the accounting officer. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

### Credit risk

The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

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2015

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### 41. Risk management (continued)

#### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the municipality maintains flexibility in funding by maintaining availability under committed credit lines.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Management plans to maintain adequate cashflows by alternative means such:

- disposal of assets
- Investigating other revenue enhancement possibilities and
- improving debt collection

to ensure that funds will be available to finance future operations and that realisation of assets and settlements of liabilities, contingents and commitments will occur in the ordinary course of business.

### 42. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

During the year under review the municipality made a loss of R541 960 346. Although the current liabilities of the current year exceed the current assets with R474 450 475 the municipality had an accumulated surplus of R10 570 293 108. The total assets exceed total liabilities with R10 595 871 951.

### 43. Capital commitments

The Council has committed itself to the following capital projects:

<b>Already contracted for but not provided for</b>		
• Infrastructure	331,984,610	460,758,031
• Other	151,752	175,895
	<b>332,136,362</b>	<b>460,933,926</b>
<b>This expenditure will be financed from:</b>		
• Municipal infrastructure grant	259,397,892	238,663,422
• Government grants	39,166,305	72,965,669
• Council funds	33,572,165	149,304,835
	<b>332,136,362</b>	<b>460,933,926</b>

### 44. Public private partnerships

Emfuleni local municipality has entered into the following public private partnership agreement on 2 December 2013:

Smart metering agreement between Emfuleni local municipality and Beijing Fuxing Xiaocheng Technology Stock Co.ltd, Republic of China.

The scope as per the agreement is:

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

- Installation of electricity single phase meters, three phase meters and water meters with valves together with communications systems;
- Overload detections, anti tamper protection, software, network servers, main control computer units and other relevant systems;
- The private party will occupy the workshop identified to them in town at no cost and then upgrade the said building at their own cost.

Performance based contract

The private party has to demonstrate that the smart meter system is effective in achieving the following:

- Increasing the user payment collections
- Reducing the bulk purchase costs incurred by ELM for water and electricity. Must have a positive impact on the benchmarked operating losses incurred by ELM for water and electricity operating cycles (Optimising financial performance)

The optimising financial performance will be shared as follows.

	ELM	Private party
From project inception to break-even point	20%	80%
From break-even point to project expiry	80%	20%
Nature of the restrictions		

The break-even point to be the point where cumulative payments made to the private party have been fully repaid (R10 907 796 345).

Project objectives

Optimise reduction of financial losses for electricity and water through better control of resources and services delivered;

Positive impact on current operating financial losses;

Customer relations management

Meter tampering eradication

Preventative maintenance and waste, and

Give ELM load controlability

Changes in the agreement occurring during the period.

The addition of 43 000 (forty three thousand) additional water meters, which is a number that is above and beyond the one that was provided for in the RFP.

It bears mentioning that the cost of these additional meters is to be the base price as provided for per meter in the tender, which will be escalated on the basis of inflation rates for the 2013/2014 and 2014/2015 financial year;

The duration of the agreements is 10 (ten) years, but this period will be practically tested against the financial model and the implementation of the project. In effect, the duration must connect the time it will require for the project to reach break-even point (which is anticipated to be in the sixth year) and the period during which it is anticipated that the service provider will make a commensurate profit. Nonetheless, the service provider absorbs the risk in respect of the successful operation of the project, and this risk allocation takes place through the making of payments only when the project has reached the period of "optimised financial performance."

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

### 45. Operating lease

<b>Operating leases - municipality as a lessor - property</b>		
within one year	350,798	227,285
in second to fifth year inclusive	505,896	1,670,681
five years and above	-	-
	<b>856,694</b>	<b>1,897,966</b>
<b>Operating leases - municipality as a lessee - fleet</b>		
within one year	27,871,564	-
in second to fifth year inclusive	33,768,681	-
five years and above	-	-
	<b>61,640,245</b>	<b>-</b>
<b>Operating leases - municipality as a lessee - property</b>		
within one year	-	4,172,028
in second to fifth year inclusive	-	-
five years and above	-	-
	<b>-</b>	<b>4,172,028</b>
<b>Operating leases - municipality as a lessee - office equipment</b>		
within one year	310,927	677,958
in second to fifth year inclusive	26,212	-
five years and above	-	-
	<b>337,139</b>	<b>677,958</b>

#### Operating leases - Municipality as Lessor - Property

These leases are in respect of municipal property that is leased to third parties. These leases are payable by lessees, either monthly or annually. Leases escalate at annual fixed rates that vary between 0% and 8.5%

No contingent rent was recognised as revenue because rentals increases are escalated at a fixed percentage. Increases are not based on indices that result in a fluctuating interest rate.

#### Operating leases - Municipality as lessee - Property

Operating lease payments are recognised as an expense on a straight line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

#### Operating Leases - Municipality as lessee - Fleet

Operating lease payments are recognised as an expense on a straight line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

#### Operating leases - Municipality as lessee - Office equipment

Operating lease payments are recognised as an expense on a straight line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the annual financial statements

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### 46. Self insurance reserve

Opening balance	8,374,692	56,362,401
Contribution to reserve	156,917,714	40,000,000
Expenditure	(139,713,563)	(87,987,709)
	<u>25,578,843</u>	<u>8,374,692</u>



# **Emfuleni Local Municipality**

Annual Financial Statements for the year ended 30 June 2015

**Eimfuleni Local Municipality**  
**Appendix B**

**Analysis of property, plant and equipment as at 30 June 2014**  
**Cost/Revaluation**      **Accumulated depreciation**

Opening Balance	Additions	Donated and newly identified assets	AUC transfers	Fair value adjustments / Provision	Disposals/Derecognition	Closing Balance	Opening Balance	Derecognition /Transfer	Depreciation	Impairment loss	Closing Balance	Carrying value
Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
549,174,725	-	-	(9,513)	-	(2,804,994)	546,360,218	(182,196,319)	1,830,927	(28,573,835)	-	(208,939,227)	337,420,991
11,370,453,467	27,346,493	24,166,361	4,799,189	73,204,652	(20,032,314)	11,479,937,848	(2,669,304,980)	11,596,599	(398,147,625)	(315,694)	(3,056,171,700)	8,423,766,148
672,606,653	-	4,304,595	-	-	(1,720,942)	675,190,306	(87,097,220)	1,529,989	(15,091,806)	(3,351,050)	(104,010,087)	571,180,219

Building Property  
 Infrastructure  
 Community Assets

# Emfuleni Local Municipality Appendix B

## Analysis of property, plant and equipment as at 30 June 2014 Cost/Revaluation Accumulated depreciation

	Opening Balance	Additions	Donated and newly identified assets	AUC transfers	Fair value adjustments / Provision	Disposals/Derecognition	Closing Balance	Depreciation	Derecognition /Transfer	Depreciation	Impairment loss	Closing Balance	Carrying value
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
heritage assets	90,316	-	-	-	-	-	90,316	-	-	-	-	-	90,316
Other assets	333,526,630	2,125,200	-	1,316,057	1,484,037	(9,669,398)	328,782,526	(15,745,635)	6,528,657	(15,745,635)	(319,668)	(238,306,169)	90,476,357
Total property plant and equipment	12,925,851,791	29,471,693	28,470,956	6,105,733	74,688,689	(34,227,648)	13,030,361,214	(457,558,901)	21,486,172	(457,558,901)	(3,986,412)	(3,607,427,183)	9,422,934,031
Assets under construction	442,411,063	256,491,505	-	(5,389,913)	-	-	693,512,655	-	-	-	-	-	693,512,655
Intangible assets	43,256,734	2,031,326	-	(715,819)	-	-	44,572,241	(2,331,057)	620,444	(2,331,057)	-	(25,017,168)	19,555,073
Investment property	1,404,705,114	-	-	-	(30,075,773)	-	1,374,629,341	-	-	-	-	-	1,374,629,341
Total	1,404,705,114	-	-	-	(30,075,773)	-	1,374,629,341	-	-	-	-	-	1,374,629,341
Building Property Infrastructure	549,174,725	27,346,493	24,166,361	(9,513)	73,204,652	(2,804,994)	546,360,218	(28,573,835)	1,830,927	(28,573,835)	-	(208,939,227)	337,420,991
Community Assets	11,370,453,467	-	4,304,595	4,799,189	-	(20,032,314)	11,479,937,848	(398,147,625)	11,596,599	(398,147,625)	(315,694)	(3,056,171,700)	8,423,766,148
Heritage Assets	672,606,653	-	-	-	-	(1,720,942)	675,190,306	(15,091,806)	1,529,989	(15,091,806)	(3,351,050)	(104,010,087)	571,180,219
Other assets	90,316	-	-	-	-	-	90,316	-	-	-	-	-	90,316
Assets under construction	333,526,630	2,125,200	-	1,316,057	1,484,037	(9,669,398)	328,782,526	(15,745,635)	6,528,657	(15,745,635)	(319,668)	(238,306,169)	90,476,357
Intangible assets	442,411,063	256,491,505	-	(5,389,913)	-	-	693,512,655	-	-	-	-	-	693,512,655
Investment property	1,404,705,114	-	-	-	(30,075,773)	-	1,374,629,341	-	-	-	-	-	1,374,629,341
Total	14,816,224,702	287,994,524	28,470,956	1	44,612,916	(34,227,648)	15,143,075,451	(459,889,958)	22,106,616	(459,889,958)	(3,986,412)	(3,632,444,351)	11,510,631,100

# Emfuleni Local Municipality Appendix C

## Segmental Statement of Financial Performance for the year ended Current Year

Actual Income	Actual Expenditure	Surplus / (Deficit)		Actual Income	Actual Expenditure	Surplus / (Deficit)
Rand	Rand	Rand		Rand	Rand	Rand
Municipality						
1,260,413,172	1,275,071,184	(14,658,012)	Executive & Council/Mayor and Council	1,380,851,693	1,519,851,361	(138,999,668)
270,839,262	191,319,682	79,519,580	Finance & Admin/Finance	(26,328,815)	576,920,790	(603,249,605)
99,500,534	41,521,174	57,979,360	Planning and Development/Economic Development/Plan	190,431,891	31,472,292	158,959,599
46,552,562	51,480,986	(4,928,424)	Health/Clinics	48,550,116	73,310,088	(24,759,972)
14,890,439	76,714,977	(61,824,538)	Comm. & Social/Libraries and archives	17,844,462	92,282,755	(74,438,293)
8,398,869	13,766,127	(5,367,258)	Housing	8,219,506	14,337,205	(6,117,699)
154,359,479	173,625,564	(19,266,085)	Public Safety/Police	144,277,201	146,354,395	(2,077,194)
15,748	73,579,584	(73,563,836)	Sport and Recreation	511,501	75,065,271	(74,553,770)
-	10,334,993	(10,334,993)	Environmental Protection/Pollution Control	-	11,201,313	(11,201,313)
432,092,287	509,702,166	(77,609,879)	Waste Water Management/Sewerage	572,075,594	266,338,288	305,737,306
93,590	74,823,056	(18,766,636)	Road Transport/Roads	79,323	78,808,095	(514,772)
913,770,108	811,190,082	102,580,026	Water/Water Distribution	992,922,771	594,942,340	397,980,431
1,686,975,293	1,426,548,966	260,426,327	Electricity /Electricity Distribution	1,791,441,846	1,482,657,180	308,784,666
44,293,414	30,416,460	13,876,954	Other/Air Transport	85,912,029	217,353,697	(131,441,668)
4,932,194,757	4,760,095,001	172,099,756		5,206,789,118	5,180,895,070	25,894,048
Municipal Owned Entities						
Other charges						
4,932,194,757	4,760,095,001	172,099,756	Total	5,206,789,118	5,180,895,070	25,894,048